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AAA AS A FORCE IN RECOVERY[1]

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The agricultural adjustment act and its amendments represent a fresh culmination of the post-war struggle for "effective" legislation to improve the financial position of American farmers, after experience under the agricultural marketing act had dismally disappointed even its sponsors. More particularly, however, the adjustment act was designed to yield prompt farm relief and to speed general economic recovery, though by no means as a panacea even for agricultural ills. It soon became an integral part of a many-sided "recovery program," and the Agricultural Adjustment Administration was expected to exert a potent influence in promoting national recovery. In dealing with this aspect, I propose largely to ignore other elements of the recovery program, farm credit and other policies affecting agriculture, and other angles from which the AAA may be considered.

The theory repeatedly voiced by spokesmen for the adjustment act can be briefly summarized thus: Extremely low prices for farm products mean extremely low cash income for farmers; fixed charges claim a heavy share of that low income; hence purchases of goods produced by industry for use in farm operations and in the farm household have almost vanished; this vanished demand is responsible for a high proportion of industrial unemployment, and is prolonging acute general depression; the obvious remedy is to increase farm purchasing power, promptly and substantially;[2] this will result in heavy purchases, get indus-

[1] This paper was read at a joint meeting of the American Farm Economic Association and the American Economic Association, Chicago, December 27, 1934.

[2] To this point, the theory represents one widely accepted phase of the doctrine of "agricultural fundamentalism," on which the following quotations from the report of President Harding's National Agricultural Conference in January 1922 are pertinent.

Secretary Henry C. Wallace said in opening the Conference (*Report*, p. 13): ". . . The agriculture of the Nation is in a bad state, and our entire business and industrial life is suffering in consequence. High production costs, followed by ridiculously low prices, have greatly reduced the

try off its "dead center," and start the "upward spiral"; this can be done by measures including prompt distribution of cash benefits to farmers coupled with production restraints and other steps to raise farm prices of farm products; in turn, increased industrial income will increase effective demand for farm products, and add to further improvement in farm prices and income; thus the AAA will exert a mighty force toward general recovery.

Part of this theory was vigorously set forth by Governor Roosevelt in his campaign speeches. Shortly before the 1932 election, he said:[3]

> . . . I believe that we can restore prosperity here in this country by reestablishing this gigantic purchasing power of half of the people of the country, that when this gigantic market of 50,000,000 people is able to purchase goods, industry will start to turn, and the millions of jobless men and women now walking the streets will be reemployed. (Atlanta, October 24.)
>
> We need to give 50,000,000 people who live directly or indirectly on agriculture a price for their products in excess of the cost of production. That will give them the buying power to start your mills and mines to work to supply their needs. They cannot buy your goods because they cannot get a fair price for their products. (Boston, October 31.)

In subsequent hearings[4] and debates on pending farm legislation, the theory was emphatically enunciated by advocates of the proposed measure, presumably with telling political effect. President Roosevelt, in his message of March 16, 1933, transmitting the draft bill for the farm act, spoke of it as "of definite constructive importance to our economic recovery." The theory is plainly implied in the declarations of emergency and of policy in the agricultural adjustment act that emerged on May 12, 1933, and it figured heavily in Ezekiel and Bean's economic brief for the act.[5] The farm organization spokesman at the first informal public conference held by the AAA, to consider a wheat program, said on May 26: "There is no switch on the national board which can be turned to such an immediate advantage to the Nation as that one which would provide agriculture with some immediate

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farmer's net income, and his purchasing power has been still further reduced by the disproportionately high prices of the things he is forced to buy. . . ."

Committee No. 1, of which the Secretary's son, Henry A. Wallace, was a member, reported that "the primary cause of disastrous unemployment of millions of industrial workers" had been the "overwhelming drop in the purchasing power of the American farmer," and stated (p. 137): "The conference declares that no revival of American business is possible until the farmer's dollar is restored to its normal purchasing power when expressed in the prices paid for the commodities which the farmer must purchase, and the conference further declares that by right the men engaged in the agricultural field are entitled to a larger return than they have heretofore received for the service they give society."

[3] Here quoted from Mr. George N. Peek's testimony before the Senate Committee on Finance, Feb. 14, 1933. Mr. Peek added: "Let no one doubt that the results of the election meant general approval of the views expressed above."

[4] See, for example, *Agricultural Adjustment Program,* Hearings before the House Committee on Agriculture, 72 Cong. 2 sess., Dec. 14-20, Serial M. pp. 139-40 (M. L. Wilson), 359-80 (Mordecai Ezekiel).

[5] *Economic Bases for the Agricultural Adjustment Act,* December 1933.

funds for lumber, hardware, paint, clothes, schools, debt payments, etc." President Roosevelt, in his address of October 22, 1933, referred to the AAA as a "pillar in the making" of "the edifice of recovery."[6]

The great experiment has now been under way for 19 months. How does the theory stand up under the test of experience to date? More specifically: (1) Did the AAA get industry off "dead center" and start general recovery? (2) Has it accelerated or retarded the progress of recovery, still disappointingly limited? (3) To what extent, and in what particulars, has it modified the course and character of recovery?

The stage is early for arriving at definitive answers to these questions. Several moves of the AAA were not calculated to show immediate results; many were frankly experimental; and some have been abandoned or modified. In part the significant effects are tendencies, only partially revealed in clear-cut results. Much needed evidence is not yet at hand or assembled. Moreover, the task involved is one of the most difficult that scientists face: to segregate the influence of specific factors on the net result of a combination of factors. The natural scientist seeks to solve such a problem by patient experimentation. The social scientist has to proceed by combining reasoning with resort to pertinent qualitative and quantitative evidence, checking one procedure against others. Preliminary approximations by one student need to be subjected to the critical scrutiny of others with different equipment.

In this spirit I venture to lay bare my tentative answers to the questions posed. I have not been able to exhaust the topic or reach demonstrable conclusions, and I reserve the right to change my mind. If I speak positively, it is only to save words. Mindful of Alfred Marshall's advice,[7] I invite not only supplementary but divergent views as a means of arriving at the truth.

Considering the AAA from this one angle only, my present answers summarize thus, on the basis of reasoning and experience to date: The AAA did not contribute significantly to start national recovery. Its influence on the extent of national recovery to date has been minor, not major. On the general course of recovery it has had more influence, sometimes accentuating and sometimes moderating the swings. Its chief influence has been to alter the character of national recovery—its distribution among

[6] Quoted by Secretary Wallace in his foreword to *Economic Bases*. . . .

[7] ". . . The first duty of every student is to be diffident; and his second is, to shun controversy." *Industry and Trade*, p. 679.

regions, businesses, and groups, in timing even more than in gross extent. The AAA has contributed materially to increase the money income of farmers, particularly of certain groups; but up to date the increase in aggregate purchasing power of farmers for the products and services of other groups has been larger in appearance than in reality, and more of it has been due to other factors than to the AAA. Real gains by agriculture and closely related businesses have not been net gains to the national economy; there have been important if less visible offsets. I lean to the view that the net influence of the AAA on national recovery as a whole, including agriculture, has been positive, while its net influence on business or industry other than agriculture may have been negative. At best, the favorable effects on general recovery appear slight in contrast with the hopes held out.

The principal measures taken by the AAA that have affected the rate and degree of recovery fall into five broad categories that vary considerably in importance: (1) imposition and collection of processing and related taxes; (2) rental and benefit payments to contracting farmers; (3) loans on cotton, cotton options, and corn; (4) surplus-removal operations, including the Pacific Northwest wheat export subsidy, "surplus-relief purchases" of butter, hogs, wheat, and other products, and latterly emergency purchases of cattle, sheep, and goats; and (5) production curtailment, chiefly in 1934 except for cotton and cigar-leaf tobacco. Broadly speaking, the influence of the first and last of these has been anti-recovery, of the others pro-recovery, in the short run at least.

The first effect of the AAA was an anticipatory one. Prospects for early imposition of processing taxes on wheat and cotton under the act helped to stimulate mill, merchant and consumer demands for these products in the spring of 1933, and thereby to accelerate manufacturing and trade activity. This, however, was not a dominant factor in the speculative and industrial boom in which accepted indexes of industrial activity rose with unprecedented sharpness between March and July or early August 1933. Quick action on the banking impasse; a notable change of popular and business sentiment from despair to hope; action, and promises and expectations of more action, in the direction of what was loosely called "inflation"; increasing prospects for a very short crop of wheat; consequent extreme commodity speculation; efforts to anticipate NRA measures: these, rather than AAA moves, were chiefly responsible for the sharp advances in commodity prices and business activity from late March to late July 1933.

The enthusiasm was excessive, the boom overdone, and the reaction consequently more severe. In so far as they contributed to the spring boom by casting their shadows before, AAA policies contributed somewhat to the summer recession. Stocks of flour and cotton goods were unusually heavy. A processing tax was added to mill costs of wheat already enhanced by dollar depreciation and the really short crop. Another processing tax was added to mill costs of cotton already enhanced by dollar depreciation and the extraordinary plow-up campaign of the AAA, while other operating costs were substantially increased by NRA agreements. Summer activity in these lines was lower than it would have been in the absence of the AAA.

Sponsors of the act had rested their main hopes of prompt stimulus to general recovery on the early distribution of benefit payments to producers of basic crops well in advance of collections of the necessary taxes. Thus Ezekiel and Bean said:

> ... The distribution of benefit payments through advances to producers before processing taxes are collected, creates a fund of purchasing power that serves to promote revival in the same way as a similar extension of credit in actual use.[8]

Three groups of factors prevented this consummation. First, such was the advance of prices, of wheat and cotton under the influences already mentioned, that the initial rates of processing taxes had to be fixed far below earlier expectations, and benefit payments were correspondingly restricted. Second, distribution of initial rental and benefit payments was made to wait, first on the decision to undertake production-control programs, then on the announcement that benefit payments would be made and processing taxes imposed, then on the sign-up, and finally on approval of individual contracts. All these steps involved delays, and the last unexpectedly protracted delays. Cotton growers, who were led to expect their first checks late in July, got few before mid-September, and October had passed before most of them were distributed. Wheat growers, who were led to expect their first payments by about September 15, got little before late in November, and the bulk of them in December-February. Corn-hog checks, under the program announced in October 1933, did not begin to move until April 1934, or reach large dimensions until August-October.[9] In the third place, participation by farmers fell short of 100 per cent; in the case of wheat, allotments for

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[8] *Economic Bases* . . . , p. 66.

[9] Section 8 (1) of the Act authorized the Secretary of Agriculture to make reasonable advances on benefit payments on the security of any non-perishable agricultural commodity in sealed storage on the farm. Conceivably, if the Secretary had acted under this authority, on wheat, cotton, corn, and other products, a striking outflow of funds to farmers might have occurred in the summer of 1933, with pronounced temporary effects on the course of recovery. Actually, for various reasons, no use was made of this authority.

benefit payments were issued on only about 75 per cent of production in the base period 1928-32.

As late as May 26, 1933, speaking on behalf of farm organization representatives, Mr. M. W. Thatcher estimated that the first year's benefit payments to wheat growers alone would be 330 million dollars, and urged as a "moderate request" that 70 per cent (231 millions) be advanced not later than July 15.[10] The first year's benefit payments on wheat did not quite reach 100 million dollars, and the median date of the first instalment was about January 20. Actually, it was July 1934 before 231 million dollars had been distributed on *all* commodities. Only in September-October 1933 and August-November 1934 have rental and benefit payments exceeded current collections of processing and related taxes, and thus far only in September-November 1933 have cumulated totals of payments exceeded corresponding totals of collections.

On all commodities, through November 1934, rental and benefit payments totaled 475 million dollars, while processing and related taxes yielded 595 millions. As the accompanying chart shows, through most of the period collections preceded payments by substantial amounts; and even if AAA expenditures for surplus removal are added in, the period of excess of collections over payments is not radically shortened. Perhaps a limited support to revival was given in September-October 1933 by the cotton payments, and again in recent months by corn-hog and other payments; but on the whole, on the reasoning of AAA spokesmen themselves, the combination has tended to serve as a drag on recovery; and this drag might appear still greater if one could take account of lags between price effects of the processing tax and actual collections, and between mailing of checks for benefit payments and the spending of this money.

Beyond a doubt, the distribution of rental and benefit payments has added substantially to the cash income of the farmer beneficiaries; and, broadly speaking, this has been a net addition to their current income except in the case of hog producers, and of cotton growers to some extent. There is ample testimony that this has facilitated spending by these groups, and local merchants, mail-order houses, agricultural implement companies, automobile dealers, and creditors have felt prompt beneficent results. By reason of their concentration in time and place, the effects have been easily visible. AAA spokesmen have generally

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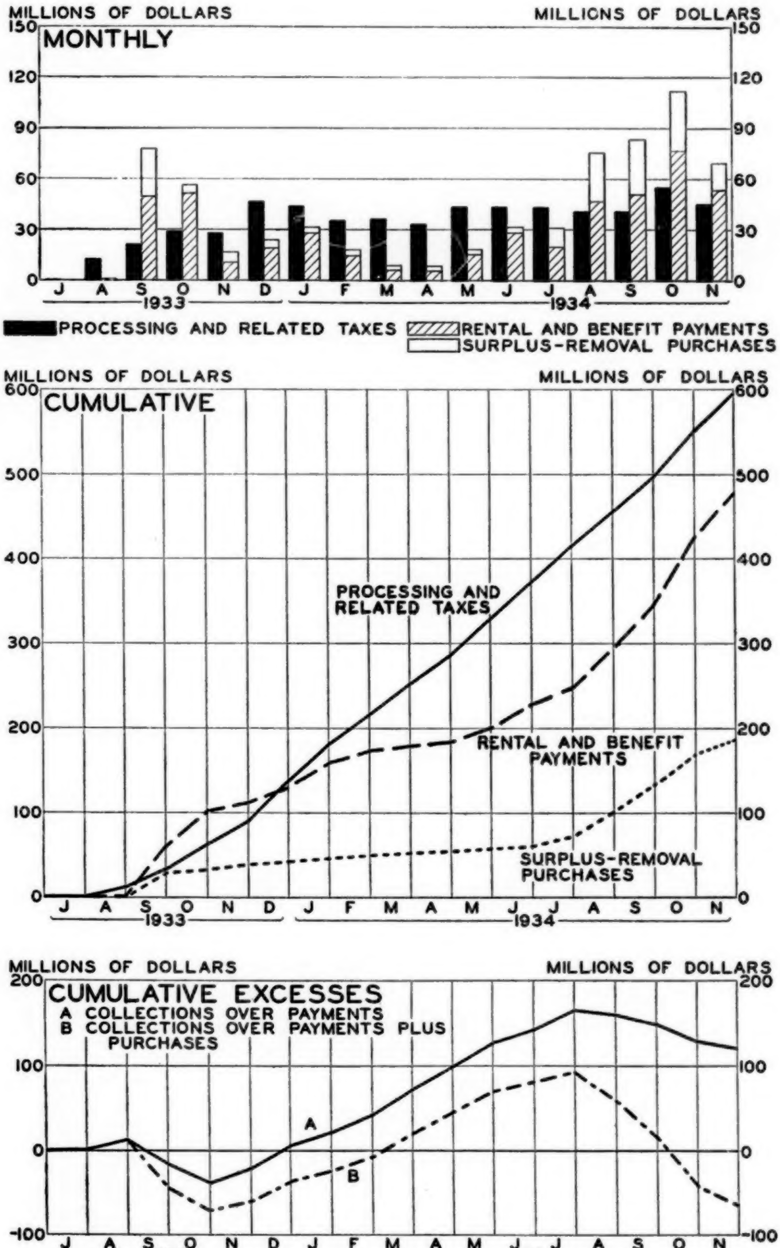
[10] *Minutes of Informal Public Conference of Wheat Growers, Handlers, and Processors Held by Agricultural Adjustment Administration . . . , May 26, 1933.*

AAA TAX COLLECTIONS, RENTAL AND BENEFIT PAYMENTS, AND SURPLUS REMOVAL PURCHASES, FROM JULY 1933*

(In millions of dollars)



* Data in table appended to this paper.

pointed to these as evidence of its contribution to general recovery, sometimes implying that all the increase in farm purchasing power was due to AAA measures. On the other hand, some critics have argued that it is simply a case of "robbing Peter to pay Paul." I submit that neither position is correct. The effect of the taxes in diminishing the purchasing power of those who bear their burden must not be ignored even though it is less obvious. Since, however, recipients of benefit payments do not spend these on the same goods and services as those who bear the burden would have spent the income surrendered, the transfer of purchasing power creates differences among industrial groups and regions.

The broader question is whether—apart from timing factors, by-products of the taxes, and the production curtailment to secure which adjustment payments were made—the transfer of purchasing power represented by those collections and payments has served or could serve to stimulate *general* recovery. Unless there is some hidden factor, a mere transfer of purchasing power should be expected to change the distribution of business activity rather than to increase its extent. However, it is not merely possession of purchasing power but its use that counts. So far as I can ascertain, economists supporting the plan believed that this purchasing power put in the hands of farmers would be more "fructifying" than in the hands of those from whom it was taken. If, let us say, the latter class included many who were letting their purchasing power lie inert while farmers would spend their benefit payments freely, an increase in effective purchasing power might be expected to result from the transfer. If, on the other hand, the taxes fell mainly on those without immobile resources of purchasing power, while the additions to farmers' income were used in considerable part in payments on debts that were saved and not spent, the result might be net curtailment of spendings.

What the full facts are, I do not know. There is ample evidence that substantial fractions of benefit payments were used by farmer recipients to pay taxes, debts, and interest.[11] Not all of the sums so used went to purchase goods or pay wages and salaries; some part must have been put aside for future use or investment. The burden of the taxes collected is so widely dispersed in time and place that its effects are not demonstrable. The incidence of the taxes has varied.[12] Yet most of the consumers'

[11] This constituted a separable element contributing to recovery.

[12] It appears that the tobacco processing tax has not been passed on to tobacco consumers, and in respect to tobacco a net increase of purchasing power expended has probably occurred. The burden of the processing tax on wheat has fallen, it is safe to say, mainly on consumers of wheat

burden of these taxes (including such "pyramiding" as has taken place) has fallen on what are mainly necessaries of life for the mass of the people, more nearly in proportion to their number than to their income. In view of this, and the economic position of the masses of people, I do not see how the taxes can have tapped appreciable reservoirs of immobilized purchasing power. Rather I infer that the transfer of purchasing power from taxbearer to benefit receiver has operated on the whole to decrease the amount of purchasing power put to active current use.

In the case of cotton, the dramatic plow-up campaign of 1933 constituted an important factor in boosting the market price of cotton, and so enhancing the value of stocks of cotton. Most of these were held, not by growers or cotton cooperatives, but by the trade.[13] Since the bulk was hedged, most of the gains from price advances on these stocks presumably went to cotton speculators. Though I know of no certain basis for the statement, I suspect that this effective transfer of purchasing power to speculators, from industrial and individual consumers of cotton, lessened rather than increased aggregate spendings for goods and services.

More weighty in respect to general recovery have been the effects of production curtailment, particularly under the two AAA cotton programs. In other basic commodities the extent of curtailment effected by the AAA was far less important: in wheat, corn, hogs, and cattle it was slight compared with the effects of the drought; in tobacco and rice the curtailment was relatively substantial in 1934 but not of large national importance.

Two types of influence should be distinguished. First is the reduction in labor on the crop and consequently in employment and earnings of tenants, croppers, and farm laborers. This was substantial in the case of cotton, and relatively so in tobacco; its social importance is by no means negligible, apart from its bearing on general or business recovery. Second is the reduction in the physical volume of business, for example, in cotton ginning, storage, transport, export, domestic manufacture and movement of finished goods, with cotton seed as well as cotton fiber. In the latter respect, particularly, the AAA programs have tended to

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products, and has probably reduced their spendings for other products to almost the full extent. The burden of the tax on cotton has fallen largely on consumers, partly on producers, and of that on hogs more largely on producers than on consumers.

[13] To the extent of some 2.4 million bales, the cotton cooperatives held futures or spot cotton with Farm Board loans. These were taken over by FCA, transferred to the AAA, and corresponding options distributed to participants in the 1933 plow-up campaign in part payment of rental benefits. From these, growers have realized some 51 million dollars.

reduce business activitiy, whereas a big crop of cotton in 1933 and a good crop in 1934 would have tended to stimulate it. It is pertinent here to recall a valuable paper of 1930, in which the present economic adviser of the AAA analyzed the interrelations between agriculture and business, and called attention to those businesses which are dependent on volume of farm output as contrasted to those dependent on farm purchasing power.[14]

Moreover, in the adjustment act as so often before, the so-called purchasing power of farm products was too commonly viewed in terms of unit prices rather than sales value, the product of volume and unit price, on which farmer purchasing power mainly depends. It is doubtful whether the growers' gross income from sales from the cotton crop of 1933 was significantly increased by the drastic cut of 25 per cent,[15] and it is by no means clear that such gross income from the two crops of 1933 and 1934 was enhanced by the double cut itself in conjunction with the processing tax. Growers' *net* income from products sold was probably somewhat increased, in large part at the expense of tenants, croppers, and laborers; but against this increase must also be set a material decrease in those business activities that depend on the volume of cotton output. In general, to the extent that the processing tax and production curtailment have reduced movement, processing, and industrial and household consumption of the products, below levels that otherwise would have obtained, AAA programs have put brakes on business recovery.

Certain supplementary steps of the AAA have figured also, in part to increase farm purchasing power and even more to affect its timing, chiefly by drafts on the general treasury or the public credit.[16] Delays in distribution of benefit payments, and widespread dissatisfaction at the price recessions of July-October 1933, led to urgent pressure for other steps to increase farm purchasing power at once. The AAA responded to some of these demands. The stabilization-relief purchase of butter was arranged in August with this in mind. In October and later, the AAA went

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[14] L. H. Bean, "Post-War Interrelations Between Agriculture and Business," Proceedings, *International Conference of Agricultural Economics*, Vol. II, pp. 178-97. "These facts, we shall find, indicate, first, that the prosperity of only certain industries is intimately dependent on the farmer's financial condition and that the welfare of a larger section of industry is dependent more on the farmer's output than on his income; second, that the variations in the industrial and financial activity of the country are real and important elements in the farmer's well being; and third, that the factors which make for agricultural depressions, particularly over-production, may have a temporary stimulating effect on national prosperity and the factors which give the appearance of agricultural prosperity, such as relatively high farm product prices, may help to bring on industrial depression."

[15] See H. I. Richards, *Cotton Under the Agricultural Adjustment Act* (Brookings Institution Pamphlet No. 15), September 1934, pp. 68-69.

[16] The sources of funds were mainly congressional appropriations and RFC loans, but wheat subsidy costs and some other surplus-removal purchases came out of processing tax revenues.

much further, with liberal loans to growers without recourse on cotton and cotton options and even more liberal loans to corn stored on farms, through the Commodity Credit Corporation; with market-stabilization, surplus-removal purchases of butter, hogs, wheat, and other products from AAA and FERA funds; and with the North Pacific wheat export subsidy.[17] The combined effect of these actions, not yet accurately measurable, was to raise farm income in the late summer, autumn, and winter of 1933-34 above what it otherwise would have been, but to raise aggregate farm income by much less than the amount thus spent or advanced.[18]

In the summer and autumn of 1934, again, the AAA not merely continued its flow of benefit payments, maintaining rates of processing taxes unchanged in spite of enhanced farm prices. It renewed its loan policies, raising the loan basis rashly on cotton from 10 to 12 cents a pound, and more conservatively on corn from 45 to 55 cents a bushel.[19] It used funds appropriated under an amendment to the act for the purchase of cattle, sheep, and goats in drought areas, some to be slaughtered promptly for relief use,[20] others to be pastured where pasture was available. The prices paid were presumably much above what the sellers could have got from ordinary sale. While several of these measures were essentially emergency relief rather than recovery measures, the recovery motive figured in them, and they were designed in part to check recessions if not to speed recovery.

Altogether the AAA operations, independent of other factors, increased farm purchasing power during the 19 months under review. At times the increase was spectacular, as when rental and benefit payments, loan advances, or direct purchases poured cash into particular localities. The concentrated character of these developments, however, gave an exaggerated impression of their true influence. The loans and relief purchases, in particular, made purchasing power available earlier but only in part increased its total, though in several instances the effect of

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[17] As these operations were conducted, and as the crops of 1934 turned out, most of these measures proved to cause the AAA no embarrassment; in the case of the corn loan, this outcome was more fortuitous than officials have publicly admitted.

[18] This was particularly the case with the loans and surplus-relief purchases. The corn loans also served to accelerate pressure of hogs onto the market, and thus to depress hog prices for a time, though not immediate market returns. The wheat export subsidy probably raised wheat growers' income as a whole by more than the subsidy paid, though not in the Pacific Northwest alone.

[19] It also offered 25 cents a bushel as an option on corn suitable for seed, and guaranteed a price of $1.25 a bushel on such seed corn as it should choose to purchase by May 1, 1935; bought up other seed supplies; and guaranteed $7.00 to $9.00 a ton on corn stover and fodder within allotments not sold by April 1, 1935.

[20] A large number were killed on the range, and others condemned as unfit for food use. These constituted about 15 per cent of total purchases.

these on the general market probably increased sales return to others than those who borrowed or sold to the AAA.

I hope that the BAE or the AAA will undertake to estimate how much of the total increase in gross cash income of farmers since 1932 has been due to the AAA. Apart from rental and benefit payments, and latterly cattle purchases, I believe that most of the increase was due to other factors. On most farm products normally exported or imported, dollar depreciation has been a

ESTIMATED TOTAL FARM CASH INCOME

Calendar year	In millions of dollars		Deflator: Index of prices farmers pay	Relatives on 1924–28 base	
	BAE estimate	Deflated		BAE estimate	Deflated
1924–28 av.	10,081	6,530	154.4	100	100
1929 high	10,479	6,850	153	104	105
1930	8,451	5,830	145	84	89
1931	5,899	4,750	124	59	73
1932 low	4,328	4,050	107	43	60
1933	5,051	4,650	109	50	71
1934 est.	(6,000)	(4,880)	(123)	(60)	(75)
THE SAME, LESS RENT AND WAGES PAID AND INTEREST AND TAXES PAYABLE					
1924–28 av.	6,879	4,450	154.4	100	100
1929 high	7,131	4,660	153	104	105
1930	5,477	3,780	145	80	85
1931	3,444	2,780	124	50	62
1932 low	2,294	2,140	107	33	48
1933	3,180	2,920	109	46	66
1934 est.	(4,000)[a]	(3,250)	(123)	(58)	(73)

[a] Assuming that one third of cash income went for items deducted.

major factor in increasing farm prices and sales proceeds, and it has exerted indirect influence on other products more or less subject to price influence from the products most affected. Two years of drought, coupled with agricultural tariffs previously in force but latterly more influential on price, have been major factors in raising farm prices of many products while temporarily lowering some, and on the whole contributed to raise farm cash income in 1933-34 if not in 1934-35. Huge outpourings of public funds other than through the AAA have helped support farm prices and cash income. Such genuine business recovery as has occurred, at home and abroad, has done the same. Standing BAE estimates of farm cash income by calendar years, inclusive of AAA payments in 1933 and 1934, are shown in the accompanying table with various manipulations of my own.[21] Considering first the dollar figures, the estimated increase from 1932 to 1933 is

[21] BAE release of August 28, 1934, "Cash Income of Farmers from Marketings. . . ." The more familiar series (e.g., *Crops and Markets*, August 1934, p. 314) includes crop-year figures for crops and for rental and benefit payments on crops.

723 million dollars, of which I suspect that less than a third was attributable to the AAA. Of the anticipated increase of 950 million in 1934 over 1933 (of which January-September figures account for 834) perhaps half was due to the AAA.

The *net* addition to real farm purchasing power was less than these dollar figures suggest, because farm purchases of goods bought, including inter-farm purchases, were made at higher prices for which AAA operations themselves were in part responsible. If one "deflates" the series above by the revised index of prices farmers pay (a procedure by no means to be closely trusted), one gets the figures shown in column two, roughly in dollars of "pre-war purchasing power." By comparison with the worst year, 1932, the improvement is marked, but it is much less than is suggested by the dollar figures. Only a modest fraction of the net real improvement between 1932 and 1933 can be attributed to the AAA, but in its absence 1934 might have been below 1933 instead of above. The lower half of the above tabulation gives perhaps a truer indication of the purchasing power of farmers for goods and services, and again indicates a relative gain smaller in real terms than in dollar terms.

I must leave unmentioned many points of possible importance. In particular, I cannot consider what influence the AAA might have had if the United States had remained on the gold standard and if weather conditions had been normal in 1933 and 1934. Nor is there time to consider whether the AAA may yet afford a stimulus to national recovery. From Dr. Ezekiel's address before the National Association of Marketing Officials, November 15, 1934, and others, I infer that AAA leaders do not confidently expect it to contribute materially to future general recovery; and I interpret the 1935 cotton program to imply a deliberate subordination of a business recovery objective to what may prove to be a short-sighted objective, fully warranted by the act, of holding up the price of cotton.

In conclusion, I hazard the guess that history's verdict on the first two years of the AAA will be that it contributed materially to farm relief and moderately to increase farm income, but that as a force in general recovery including agriculture it quite failed to fulfill the promise held out by advocates of the act and may even have retarded aggregate business recovery; and that this outcome was due in part to unpredictable events, in part to inevitable delays in administrative procedures, and in considerable part to faults in basic theory, analysis, and forecasts.

AAA Tax Collections, Rental and Benefit Payments, and Surplus-Removal Purchases, from July 1933[a]
(In millions of dollars)

Month	Monthly			Cumulative			Excess of collections	
	Collections	Payments	Purchases	Collections	Payments	Purchases	Over payments	Over payments and purchases
1933								
July	.4	—	—	.4	—	—	.4	.4
August	12.6	.8	.14	13.0	.8	.1	12.2	12.1
September	21.1	49.3	28.28	34.1	50.1	28.4	−16.0	−44.4
October	28.9	51.4	4.46	63.0	101.4	32.9	−38.4	−71.3
November	27.8	10.5	6.01	90.8	112.0	38.9	−21.2	−60.1
December	46.3	19.1	4.44	137.0	131.1	43.3	5.9	−37.4
1934								
January	43.6	27.9	3.15	180.7	159.0	46.5	21.7	−24.8
February	34.9	14.6	3.36	215.6	173.6	49.8	42.0	− 7.8
March	36.2	6.1	2.50	251.8	179.7	52.3	72.1	19.8
April	33.3	5.7	2.64	285.1	185.4	55.0	99.7	44.7
May	43.3	15.2	2.80	328.4	200.6	57.8	127.8	70.0
June	43.0	28.0	3.22	371.4	228.6	61.0	142.8	81.8
July	43.0	19.5	11.39	414.4	248.1	72.4	166.3	93.9
August	39.9	46.7	28.61	455.1	294.8	101.0	160.3	59.3
September	40.3	50.8	32.24	495.4	345.6	133.2	149.8	16.6
October	54.7	76.1	36.14	550.1	421.7	169.4	128.4	−41.0
November	44.7	53.1	16.13[b]	594.8	474.8	185.5[b]	120.0	−65.5[b]

[a] Collections as reported by Bureau of Internal Revenue, without deduction for outright refunds (3.9 millions to August 31 and 12.9 millions to October 31) or costs of collection ($2,544,178 to June 30). Rental and benefit payments as reported by the AAA are exclusive of local costs of administration deductible from gross payments, as well as of other costs of administration which to July 31 totalled $19,871,000.

Surplus-removal purchases, as reported by the AAA, included the following items to October 31, in thousands of dollars:

Hogs	46,041	Cattle	91,027
Butter and cheese	12,330	Seed	11,827
Wheat	5,872	Sheep and goats	2,294

Other surplus-relief purchases were made from FERA funds.

Cotton growers had also received, up to Nov. 30, 1934, about 51 million dollars on account of exercise of options by sale of cotton or by participation in the Cotton Producers' Pool.

[b] Excluding November 30, and preliminary only.

Discussion by Mordecai Ezekiel

U. S. Department of Agriculture

The contribution of the AAA to general recovery can be evaluated only as one among the several New Deal programs aimed at recovery. These included AAA, PWA, NRA, and the monetary policy. The tariff bargaining policy, added a year later, has not yet had time to show its effects.

The results of these several policies may be measured by their success in correcting the difficulties present in 1932. The depression was characterized by (1) extreme maladjustment of price levels, with prices of many services, monopolized goods, finished products, and sheltered union labor almost unchanged at high levels and prices of raw materials at extremely low levels; (2) an almost complete stoppage of international trade, restricted by excessive international barriers, and by a great reduction in the volume of domestic trade; (3) a great reduction in the level of industrial activity and production, especially in the heavy industries, with accompanying greatly reduced employment and payrolls; and (4) sustained production of some raw materials, especially farm products, far in excess of current domestic and foreign demand, with accompanying piling up

of excess stocks, extreme reductions in prices, and a general breakdown in the ability of farmers to buy the products of industry.

At no time was the AAA conceived as the program to deal with all these problems. Instead, it was definitely directed to meeting the fourth problem, while it was expected that other means would be developed to correct price disparities outside of agriculture, restore industrial production, and restore international trade.[1]

In practice, the NRA has not yet corrected the industrial difficulties enumerated. Its price policies have tended to perpetuate the price maladjusments, rather than to correct them. During 1933, while the price level was rising rapidly, the effect of the codes on industrial and distributive costs was such that, instead of disappearing with higher price levels, the disparities were maintained or even intensified.[2] The labor policy of shorter hours and higher wage rates per hour represented largely a continuation of the share-the-work movement inaugurated by the previous administration, and apparently has tended more to check re-employment than to accelerate it.[3] NRA thus tended to counteract whatever effect AAA might have had in stimulating increased industrial activity. Apparently the questionable wisdom of NRA price policies is now being recognized, and policies more conducive to increased industrial activity and employment may gradually be put into effect.

While NRA was failing to readjust the valves of the business machine, PWA did not succeed in cranking the engine rapidly enough to make it start firing. It is now being recognized that a much larger public works financing program than any yet undertaken would be needed, before our dormant capital goods industries could really be galvanized into action through public financing.

The monetary and gold policy did apply a powerful starting impulse, and helped produce a burst of activity in 1933. This temporary improvement, however, was at the cost of two enduring difficulties: (1) the change in monetary base shook investors' confidence, preventing for a long time any substantial reappearance of private financing; and each suggestion of further monetary manipulation causes this distrust to reappear; (2) the change in dollar exchange values produced international repercussions which showed up in a check to the world-wide recovery of 1932-33, and in new intense depressions in Italy, Germany, France, and even China, countries still using gold or silver. It is frequently overlooked that dollar depreciation, driving a wedge between American prices and world prices. tends to force the latter down as well as the former up. There is serious question as to how much, if any, the dollar value of wheat and cotton is above what it would have been if we had never devalued the dollar. If Dr. Davis were to examine the gold question by itself, I question whether he would assign it as much credit for higher farm income as he appears to in his paper. In any case dollar devaluation has not succeeded in producing corresponding increases in general price level, or in correcting the price maladjustments.

The AAA program must be viewed as a whole rather than split into

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[1] See testimony before House Committee on Agriculture, December 1932, pp. 359 to 380.

[2] Reviewed more fully in my paper, "What 1933 has meant for the farmer," *Journal of American Statistical Association*, June, 1934.

[3] Discussion on Working Hours and Wage Rates During Recovery, T. O. Yntema, paper read at luncheon meeting, American Statistical Association, December 27, 1934.

parts as Dr. Davis attempts to do. At least benefit payments, processing taxes, and production adjustment must be viewed as integral parts of one program. In this program benefit payments were only a means to an end and are not, as Dr. Davis assumes, the key factor in the program.

I believe Dr. Davis underestimates the effect of production adjustment upon farm incomes. Uncontrolled cotton production in 1933 would have meant increased carryovers persisting for several years; or large crops in 1934 would have further increased the carryover. Even if it be true that the restricted crop in 1933 sold for no more gross income than the larger crop would have done, the persisting addition to carryover would have held down cotton crop values for several years. For 1933-34, and '35 combined, I believe there is no question but that the adjusted outputs will mean materially more income than would continued excessive production.[4]

Likewise, I believe Dr. Davis fails to give AAA due credit for the reduction in hog output in 1934. Even if there had been normal corn yields, the pig slaughter campaign of 1933 and the reduction of farrowings last spring under the corn-hog contracts would have reduced hog production this year sufficiently to offset the loss of foreign markets.

I recognize the injustices to individuals which have resulted from the speed, intensity and uniformity with which the reduction programs were applied, and am eager to see them corrected.[5] But the facts are that AAA did definitely adjust production in cotton, tobacco and hogs, and helped in wheat and many minor products.

But these are relatively minor points. My major difference with Dr. Davis is over whether the increased income of farmers, both from benefit payments and higher prices for their products, did represent simply a *transfer* of income from other groups as he suggests. Starting with very low industrial employment, and with low farm buying power, it seems to me that the increased farm income was accompanied by, and in fact helped produce, sufficient increase in city production and income to provide the increase of farm income. Instead of a transfer, there was a mutual increase of income of industrial activity, and of exchange between city and country. Through removing one of the forces that were blocking normal industrial activity, the AAA made possible a partial restoration of normal interchange.

The statistical indications that in 1933 increased farm income preceded increased industrial payrolls, and that in the summer of 1934 sustained farm buying power helped check the industrial decline seem to be empirical confirmation of this view.

The changes in farm income shown by Dr. Davis help support this view. Farm income above expenses—and therefore available for the purchase of industrial products for farm families—nearly doubled from 1932 to 1934. Even after adjusting for changes in prices, there was more than a 50 per cent increase in such farm purchasing power. Undoubtedly this had a powerful influence on urban activity and income.

In comparison with the conditions to be corrected, NRA tended to intensify price disparities rather than correct them; PWA was only a mild

[4] For actual estimates of such continued effects, see my paper "A Statistical examination of proposals for farm relief," JOURNAL OF FARM ECONOMICS, March, 1929.

[5] See my paper, "Appraisal of and Outlook for Research in Rural Sociology under the New Deal," before American Sociological Society, December 26, 1934.

stimulant; the gold policy gave a real temporary boost but left other difficulties in its wake. AAA has made much progress toward its goal of production adjustment. Aided by the drought, it has largely eliminated the excessive surpluses. Present production is in adjustment with present domestic and foreign demands. For the future, industrial production must be increased to further increase farm incomes. As fast as industrial production is increased AAA stands ready to adjust the production of farm products upwards to the growing demands while continuing to prevent excessive or unbalanced expansions.

Discussion by T. W. Schultz

Iowa State College

Few men are better qualified to evaluate the AAA programs than is Mr. Davis. He not only is experienced in the theory and practice of farm relief but he also is fortified by a staff of expert observers and analysts, men who have given all of their time to a concurrent study of the AAA since its beginning. Nevertheless, even with these several advantages, the task which Mr. Davis undertakes is still a very difficult one and I am sure that we all appreciate and are indebted to him for the broad and balanced analysis which he has given us.

Mr. Davis comes to the conclusion that the AAA has contributed materially to farm relief and moderately to an increase in farm incomes; but thus far the net influence of the AAA programs on national recovery has been, if anything, only slightly positive. Without entering into the relative merits of the pro- and anti-recovery contributions of the several categories into which Mr. Davis classifies the AAA activities and which he discusses, I am inclined to feel that in general outlines his summary appraisal is reasonable both in emphasis and balance.

Mr. Davis addresses himself primarily to the latter aspect, namely, the AAA as a force in recovery. At the outset he makes it clear that the official sponsors of the AAA program were inclined to stress the general *promotive economic effects* of the act on national recovery. Because of this emphasis upon the short-run gains that were presumably claimed for the AAA, Mr. Davis takes this as indicating that the basic theory of the act was of such a character as to give a major stimulus to national recovery.

But he finds that the first two years of the AAA have contributed relatively little to national recovery. Indeed I doubt if anyone would claim that the AAA has been a mighty or even a significant force in improving economic activity generally. Accordingly, it has failed to fulfill the somewhat glowing promises held out by administration advocates. Certainly up to this point there can be little disagreement with the inference of Mr. Davis' logic, even though one might be curious enough to wonder if any governmental scheme, or for that matter, any other, has ever accomplished as much as was claimed for it by its sponsors.

Instead of assigning the apparent failure of the AAA to bring about a large measure of national recovery to inflated promises, Mr. Davis takes the view that it is due in considerable part to faults in basic theory. Presumably he has in mind the basic economic theory underlying the farm

act rather than the basic theory of administrative officials. The latter of necessity is a complex affair, involving political and social, as well as economic considerations, with major variations, whether they are involved in policy determination or in the administrative task of carrying out policies.

Administrative Promises Not Basic Theory

My query is: should not the rationalizations which appear as political promises be considered in the light of the motives that are back of them? A promise made to win the active support of indifferent and even hostile elements of a body politic, is not in my opinion, to be taken as being wholly synonymous with the probable theoretical economic aims and results that a scheme so launched affords. Obviously, governmental officials, in launching a major program may well be guilty of stressing incidental features of their program, on the assumption that longer run considerations are likely to be less popular. Nor are officials alone guilty of a disproportionate distribution of emphasis upon the component parts of a scheme. Moreover, few economists would be so rash as to maintain that a purely objective analysis of the economic consequences of any proposal would be successful in commanding enough interest and support to make the "dead bones of the scheme walk."

It would appear that the AAA has not pushed industry off "dead center" or accelerated appreciably the progress of recovery, a verdict which may discredit the claims and, to a less extent, the expectations of official advocates of the farm act, but this non-fulfillment of promises is not evidence *per se* that the theoretical objectives and framework of the scheme were necessarily at fault.

My comments are not to be interpreted as implying that there are no defects in the basic economic assumptions which are reflected in the farm act, nor is it my purpose, except in a very general way, to indicate what those basic assumptions are. But I do feel, quite emphatically, that Mr. Davis, in the several quotations which he gives in the early part of his paper, does not give us a complete picture of the theory on which the farm act was built. Instead, he threw into focus certain minor features which received considerable emphasis in the political propaganda that preceded the launching of the legislation, and subsequently Mr. Davis exposes certain of these early claims made in behalf of the AAA.

Broadly considered, the AAA was an attempt to alleviate the emergency situation in agriculture and to correct certain chronic maladjustments of long standing in American agriculture, the latter problem having its origin chiefly in the price and production abnormalities associated with the World War and the disturbances affecting agriculture adversely since then, especially the loss of our foreign markets for farm produce.

Vulnerability of Agriculture to Price Decline

Most commentators on the differential effects of depression upon various producers, hold that agriculture is peculiarly vulnerable to drastic price declines that occur during depressions. In short, depressions throw a heavier burden upon producers of raw materials and especially on those whose production processes are characterized by relatively high-fixed cost and small production units. Because of these characteristics inherent

in their business, farmers find themselves in a relatively inflexible position, which in turn weakens their competitive position as a depression deepens.

More Balanced Depression

In this connection, Mr. Davis' conclusion that the AAA has contributed materially to farm relief, moderately to increased farm income, without promoting national recovery is highly significant. From this analysis we are justified to infer that the AAA has been instrumental in bringing about a more balanced depression. Broadly interpreted, therefore, the operations of the AAA have had a tendency to equalize the incidence of the depression. In other words, it has been a feature in liquidating some of the apparent disparity between agriculture and non-agricultural incomes that had their origin in the downward spiral which started in 1930. Consequently, to the extent that a better balance has been struck between agricultural and non-agricultural groups, a status exists which should facilitate the maintenance and attainment of a more balanced prosperity, if and when the multitudinous forces and factors which make up our economy again provide us with a tempo of activity which will provide most of us with sensations equivalent to a high state of economic well being.

Finally, no agricultural economist attached to the U.S. Department of Agriculture or in an academic position, as far as I am aware, subscribes to a species of business cycle theory which places agriculture in a strategic position for breaking the hold of the depression. Proportionally the farm population is relatively small to the total and supposedly a given quantity of purchasing power in the hands of farmers is as effective, but no more effective, in bringing about retail buying as a similar amount of purchasing power in the hands of industrial workers. Such a view, however, is quite different from assigning to agriculture a strategic position in the business cycle, so important in fact that it can provide our economy with the necessary impetus of pushing us off "dead center." Nor do I see why it is reasonable to ascribe to agricultural economists, whether with or outside of the administration the kind of "agricultural fundamentalism" which is so clearly evident in the quotations taken from Mr. Roosevelt's addresses which Mr. Davis cites.

Both of the above comments are minor, yet they are indicative of the major shortcoming of Mr. Davis' paper, mainly the fact that he ascribes considerable theoretical importance to the public statements of administrative officials and seeks to find in them the basic theory underlying the schemes being launched by the administrators.

The major economic thought that made up the objectives and to a large extent determined the frame-work of the agricultural adjustment act is to be found in the discussions and papers of prominent agricultural economists from 1920 onward. I wish that Mr. Davis had chosen to test, in light of the experiences of the AAA during the last year and a half, some of the more basic thought in agricultural reform that has accumulated over the last decade and a half. This approach, I believe, would have been more profitable, especially to those of us who are concerned about some of the basic assumptions that underlie the whole AAA program rather than scrutinizing the validity of the administrative promises in their over-emphasis on the immediate gains to be obtained from their efforts.

PLANNING, CONTROL AND RESEARCH IN AGRICULTURE AFTER RECOVERY[1]

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Whatever the makers of this program may have had in mind when they wrote the title for this paper, I doubt if we shall ever, even looking backward, be able to say just when the agricultural recovery process ended and normalcy began. Instead we shall have a gradual improvement which at some stage some will consider adequate and some will not.

By the same sign, agricultural research, planning and control will not lend themselves to separate treatment *during* and then *after* recovery, but instead the research and planning and even the control of the recovery phase will merge into that of the post-recovery period.

This last statement may carry implications distasteful to some now listening to this paper. For I have no doubt that among you are those who hope and expect that at some point there will be an end to all control and public planning in agriculture; that we shall at that time return to a happy condition in which research shall have for its main if not sole objective the supplying of farmers, and others doing business with farmers, with facts and understanding to assist them in doing their own planning upon an individual farm or business-unit basis. My task would be much simplified if I accepted such a forecast, for I could then simply say that there will be *no* planning or control after recovery; and then present a discussion of research as practiced in the last decade.

I can safely say, I think, that most of you would be bored with such a discussion, and would ask yourself in what remote arm chair I had been sitting for the past five years. Most of you do not believe that we shall ever return altogether to the highly individual farm economy of pre-depression days; or that the marketing businesses handling farm products, or the credit agencies supplying farms with credit, will ever enjoy the degree of freedom from public participation in their affairs that prevailed in those years. The questions in most of your minds relate rather to the degree of departure from an individual economy, and the forms that it will take.

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[1] This paper was read at a joint meeting of the American Farm Economic Association and the American Economic Association, Chicago, December 27, 1934.

The degree of departure from pre-depression individual economy that we can except is surely not foreordained. It will depend upon how much agricultural and urban recovery we get, and how soon we get it; upon the extent of the adjustments that prove to be called for as a result of continuing urban unemployment, of continuing depression in international trade, and of continuing restrictions upon competitive prices, production, and wages in trade and industry.

So far as agriculture is concerned, we would not now have the present controls of production and marketing if the depression had not occurred, and probably not if it had been only half as severe and prolonged. Probably in the latter case we would have contented ourselves for the time being with some major amendments in the agricultural marketing act. Without the severity of the depression, we likewise would not have taken the drastic steps in trade and industry control represented by NRA.

However, we will make a serious mistake if we look upon these developments as arising wholly out of the depression. If I had time, I would show how the AAA is the outcome of several lines of development that began back in 1921. These included a production adjustment movement, the first form of which was the outlook program; a marketing adjustment movement, of which the McNary-Haugen agitation was one phase, and the agricultural marketing act another; and a land-use control movement, which had not reached the stage of action even as late as 1933. This should make clear that the agricultural adjustment act is the outcome of a long process of effort to secure new agricultural reform legislation beginning in the post-war years and including the experimentation carried on under the Federal Farm Board. It really summarizes nearly all of these efforts. About the only features missing are the export debenture proposal, and perhaps the proposed but never organized land-use program. The loans made on farmers' holdings of cotton, corn and wheat are the current counterpart of the stabilization operations of the Federal Farm Board. Certain of the activities relating to cooperatives were of course left with that part of the old Federal Farm Board which the Farm Credit Administration inherited.

Under the foregoing circumstances, to abolish the agricultural adjustment act presently would be almost equivalent to putting a period at the end of the whole current agricultural reform movement. And this we cannot reasonably expect however much many urban-minded folks would really like it. Agriculture is too powerful politically for such an outcome; among other things, it domi-

nates from 25 to 30 states, each with two senators in Congress. Even should some form of a Republican party win the next election and repeal the agricultural adjustment act, it would surely pass another measure in its place which would include a good part of the present provisions.

The only question therefore seriously worth considering is how much and what parts of the present act, and the amendments added in the next few years, will be dropped when the depression is finally over.

At this point we should become entirely clear about the "emergency" character of the act. It is true that this act provides that the President can terminate it as a whole, or its application to any particular commodity, when the emergency is over in general, or for that commodity. But we make a mistake if we assume that Congress intended that nothing would take the place of the act should the President choose to declare the emergency ended. The termination clause was put in to speed its passage through Congress; mistakes would not be so serious if they could be ended quickly. There would be time enough while the emergency was on to revise the act, or shape a new one; also opportunity to learn from experience how the allotment procedure and the other controls operated. No doubt a majority of Congress expected that only revision would be needed.

The farm organizations and their political allies had opposed the original domestic allotment proposal because they believed it would take too long to put in operation. They wanted price-raising immediately; and at the start were very little concerned with production adjustments. But the Farm Board experiments had been educative, and the Harriman form of the allotment proposal promised quick returns plus production control, using methods that seemed to be constitutional and could be continued indefinitely if desired. The principal misgivings this group had were with respect to its workability. If experience proved that the scheme would work, they would have no reason for abandoning it at a later date.

The group of agricultural economists led by M. L. Wilson who took an active part in the development of this legislation were fundamentally interested in a workable procedure for securing, on a continuous basis, the needed production adjustments, and were only incidentally interested in emergency relief. They were surely enough interested in it, however, to approve a measure that provided such relief using methods that included production adjustments and thus laid the foundation for a continuing program

of such adjustments. They fully expected that experience gained with securing production adjustments by means of individual farm contracts and benefit payments would point the way to the desirable procedures to be followed later. Even more important, they realized that getting Congress interested in such an abstraction as production adjustments was almost a hopeless task. Here was a chance to ride into action with their program along with the politicians. Once production adjustments had been obtained *a la* Harriman, they believed that the farm organizations and their political allies would be ready to accept the necessary modifications later.

The final framing of the adjustment act was placed in the hands of a group comprising representatives of the farm organizations interested most in emergency relief, and of the group fundamentally interested in production adjustments.

The act also has passages in its preamble and elsewhere indicating the need for agricultural relief as a means to general economic recovery. No doubt the farm organization leaders, and a very large proportion of the Congressmen voting for the act, and possibly the President himself, and surely a sizeable group of business men having relations with agriculture, believed intensely that there could be no real business recovery with a continuing depressed agriculture. Many of them went so far as to say that much of the apparent prosperity of 1925-29 was built on sand because agriculture was still depressed. Many also believed that the best place to start in with a recovery program was in agriculture. Even Ezekiel and Bean in their tract written in support of the agricultural adjustment act[2] make use of this line of argument.

But as economists, we must not take these statements and beliefs for more than they are worth. As voiced by farm organization leaders and their adherents, and by certain business men, they must be considered merely as oral expressions of attitudes. As written into the act, they must be taken as political arguments. As put forward by Ezekiel and Bean, they must be understood as administrative defense statements. No doubt some of the agricultural economists working directly upon this measure also in part accepted these arguments as valid; but even this does not commit you and me to such a position; nor the body of economists in general.

There was a very disturbing situation in agriculture in 1932 and

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[2] *The Economic Bases of the Agricultural Adjustment Act.*

'33, and any nationwide recovery program must include special provisions relating to agriculture. These should include mortgage relief and measures for reducing the accumulated stocks. If the measures adopted did accomplish these two purposes in significant degree, without seriously interfering with the progress of relief for other sorely beset classes, such as the urban unemployed and urban home owners also under heavy mortgage, and without obstructing what may be loosely called general business recovery, they must then be declared as fulfilling any reasonable expectations as emergency relief. Dr. Davis essentially concludes, I take it, in his paper which you have just heard, that the AAA has clearly assisted agriculture as such, and has done this without interfering seriously with the rest of the recovery program.

The major interest of economists, however, should not be in the emergency achievements of the act, but in its contribution to a continuing program of improved agricultural organization for production, marketing and land-use. The AAA program would be worthwhile as a contribution of this nature though it helped no whit in getting us out of the depression.

A reasonable conjecture is that new individual-farm contracts will be written for the crop year 1936, all present contracts terminating with the 1935 crop. These new contracts may be somewhat indefinite in their time periods, including provisions for automatic renewal subject to cancellation under specified conditions. They may also permit no control in years when it is not needed and resumption when it is. They may provide for a referendum any year to decide whether or not control shall be undertaken. Several lines of action are possible with respect to the scope of the contracts, such as: (1) continuing the individual commodity contracts; (2) adopting the so-called all-farm contract; (3) developing a set of two contracts for any farm, one covering all the feed crops, and the other the cash or food crops; or (4) combining allotments for most of the products on any farm into one all-farm contract. The recent referendum among corn growers on the all-farm contract was inconclusive because the contract was not clearly understood. All that it proposed was limiting the total amount of land in cultivated crops, leaving the operator largely free to choose between these crops, and largely free with respect to his use of land not in cultivated crops. Many misunderstood it to propose specific restriction on the acreage of each crop and form of livestock. The principal objection to it is that it might permit too great an expansion of any one cultivated crop in any year. This could be met in part by the third proposal, separating

feed crops from cash or food crops and controlling the total acres in each class. Farms having only feed crops, or only food or cash crops, would have only one contract; or possibly one for each separate cash crop—thus one for cotton and another for tobacco. The wish of the Administration is not to attempt direct control of livestock production, but to regulate this through control of feed crops.

Future action with respect to the foregoing will be determined in part by the course of legislation. The law as written ties control with processing taxes by individual commodities. Thus in order to collect processing taxes on hogs this coming year, it was necessary to impose restrictions on hog production even though none was needed. Without the processing taxes on hogs, there would have been very little income to pay benefit payments. Congress may not be willing to liberalize these arrangements. Some of the livestock producers object to the plan of collecting processing taxes on their products to control feed crops that may be used for other forms of livestock. Others are fearful that the acreage kept out of crops will be shifted to pasture and hay and increase dairy and beef production. Without such liberalization, the all-farm contract, and even the all-feed-crop contract, will be impossible. This would prove a serious deterrent to the evolution of an intelligent production adjustment program.

Future action also depends upon whether Congress continues the Bankhead and Kerr plans for cotton and tobacco respectively; and whether it extends these to other commodities. The Bankhead plan differs from the Kerr plan principally in the severity of the penalties imposed upon non-contracted production. The Kerr act attempts to restrict these penalties to the amount needed to offset the advantages of staying on the outside and reaping the gains produced by the contract-signers. Those of you who are familiar with the "liquidated damage" provisions of the cooperative membership contracts will recognize a certain parallelism here. Liquidated damages are supposed to equal the cost of furnishing services to a member of a cooperative who subsequently decides to sell outside and not use the services. The amount of cost involved is estimated in advance and written into the contract. The significant difference is that liquidated damages apply only to those who sign a contract and then fail to perform, whereas the Kerr plan applies to all growers of tobacco whether they wish it or not. The liquidated damages of cooperatives have withstood the scrutiny of the courts. Whether the Kerr plan will do so except on an emergency basis is highly debatable. Requiring a two-thirds or three-fourths

vote in a referendum as a prerequisite to application of the plan might affect the attitude of the courts toward it.

Clearly here is involved an issue which is fundamental to a current trend in economic organization—the issue whether an ordinary majority, or perhaps some larger fraction, shall determine collective action for a group in private economic affairs just as they now do in public affairs. An ordinary majority can now force a special tax assessment or an insurance assessment; can declare dividends and direct a multitude of corporation activities; can control some activities of members of a cooperative or a labor union. The step from this to controlling certain activities of all the producers of a product is often not a very long one in any practical sense. I realize that theoretically the situation is otherwise. In England, of course, this step has already been taken under its agricultural marketing act. It was taken under Section 7A of the national industrial recovery act in the Houde case, still awaiting final decision in the courts.

The Kerr plan could be applied so as to save all need for collecting processing taxes; it could thus be used to sidestep the issue over processing taxes on livestock discussed above.

Processing taxes are limited in the adjustment act to the difference between the current price and the parity price. Prices of several farm products are near enough to parity now so that the amount of the income to be derived from taxes would not be large if based upon them. For example, prices of several types of tobacco are now above parity, and cotton prices are within 3 or 4 cents of it. Unless the collections are fairly large, the benefit payments will be too small to be effective. Legal counsel holds that taxes can be set for a contract period of two years and perhaps longer and maintained even though prices rise to parity during the period. Thus the present taxes are based on prices and parity at the time the contracts were offered. But obviously this procedure cannot be followed long. A continuing use of the processing tax device would seem to require keeping prices sufficiently below parity to provide the necessary benefit payments to secure control of production. With prices relatively low, less restraint on production would be needed. Obviously the tendency will be toward a balanced position at which just enough processing taxes would be collected to induce that amount of production only. But prices would not be at parity except in occasional years of low yields per acre.

If producers would be satisfied with prices at such a level under parity, and taxes could be collected on livestock products, and benefit payment made on feed crops, perhaps the problem of pro-

duction control would be largely solved for the next two to five years. Production could be kept at a level that would approximate the balance above defined. In years following unusual yields per acre, allotments could be reduced; or if for any other reason stocks should accumulate again; or merely to forestall a highly probably excess production as a response to high prices. In other years, no restraints upon production might be needed at all.

The foregoing raises the question as to whether and to what extent the adjustment act is a measure for *reducing* production. The language of the act is in terms of reduction, it is true; but it is reduction below the high level of production of the years when we were accumulating the excess stocks. Acreages are free to expand as well as contract within this upper limit. Thus the 1935 cotton program will probably call for an increase of 25 per cent over the 1934 acreage—25 per cent under the base production as against 40 per cent last year. The base production is high enough so that the 100 per cent of it always possible will take care of any needs that are likely to arise in the next five years; and as a matter of fact, the base could easily be raised at any time, probably as a simple matter of administration detail. The measure thus makes reduction possible, but does not require it.

The requirement in the act relates to parity price. The Administration must work toward parity prices as rapidly as feasible, and presumably as far as feasible, and this may require reduced output. But here again, the parity goal should not be taken too seriously. In the first place, there is no absolute mandate in the act to secure parity prices. The Administration is guarded from this in several ways. In the second place, the sponsors of the act intended it more to serve as a rough approximation to fair prices than as an exact measure. It seemed the best of any of the possible measures available—in particular, better than the cost-of-production measure that John Simpson and Senator Norris wanted. In the third place, parity price does not fit equally well the different farm products. Some products were relatively higher priced than others in the base period—hogs, for example. Some have benefited from technological improvements more than others in the twenty years since—wheat, for example.

One may be sure that the spokesman for any commodity group will demand the parity price for this product even though such a price is relatively out of line now. But I shall be disappointed in the administrators of the AAA if they accede to such demands; or if in general they take the parity goal measure with a high degree of seriousness in actual decisions.

Farm prices of farm products in general now have a purchasing

ratio of about 81, as compared with 55 in the spring of 1933. Thus they have nearly half of the way to parity still to go. Conceivably the political farmers may decide that further reductions in output are now needed in order to bring average farm prices clear to parity. A more rational course of action, in my humble judgment, is to let the rest of the increase in relative prices of farm products come mostly with returning industrial employment. About as much has been done as is possible by reducing accumulated stocks of farm products and producing herds. Cotton stocks, it is true, are still two or three million bales too high; but high prices apparently will not reduce them. Numbers of beef cattle and hogs have been reduced to their 1927-28 lows; dairy herds only are still overlarge. In 1921 to '23, prices of farm products rose much faster than other prices and reached a purchasing ratio of 99 in 1925 with no government aid in reducing surplus stocks. They may very well rise above parity purchasing power again within a few years. Then will come a critical period for the adjustment program. Farmers will be satisfied with conditions for the moment and may lose interest in production adjustment. But the high prices will stimulate rapid expansion of production, followed by low prices and the need for adjustment again. Reducing production further at this time will magnify this danger.

No doubt there will be groups of producers who will want production to be restricted to a point that will give them essentially monopoly prices such as they believe labor unions obtain for their members, and industry and trade for its products and services. They will want the government to support schemes for the control of production that will secure these monopoly prices—just as industry and trade and labor have been asking the government to do a similar thing under the NRA codes.

The record of the AAA thus far would suggest that it will oppose such an assignment of duties for the future. Its leaders are thinking in terms of a production control limited to such adjustments as are made necessary by loss of foreign markets, expansion of acreage caused by improvements in methods and equipment, accumulation of stocks due to favorable weather, cycles of over- and under-planting and over- and under-breeding, and the like. Such production control would not need to be exercised continuously for most farm products; but instead would consist of keeping watch of developments and assembling the necessary production and other records, so as to be ready to step in and act promptly and effectively whenever an emergency impends for any product. The prices obtained would not be monopoly prices; just more stable prices than at present.

Whether or not the government can satisfy the agricultural public with such a program will depend largely upon what it concedes to industry and labor. If the prices for industrial products and retail prices to consumers, are kept from acquiring any further elements of monopoly, perhaps the farmers can be held in line. Probably, however, they will require that such prices be freed of some monopoly elements they had even before the NIRA was passed.

Such a program for agriculture will probably mean a smaller agricultural plant for the time being than was operated between 1925 and 1929—because of losses in our foreign markets sustained in the last five years particularly, and because of certain developments in production. This will call for some important changes in the production programs of many sections of the country—in general, for a shift toward more extensive systems of farming. Accordingly land-use planning and control will need to be closely integrated with production control.

Thinking in the AAA at present is in terms of shifting of land from cultivated crops producing much food and feed per acre—wheat and corn—toward those producing less, namely toward pasture and forage crop farming, and livestock products in place of cereals. This will require some change in our diets—desirable from a health standpoint, but requiring either lower relative prices for dairy products and meat, or larger earnings for working-class families—probably both.

Secretary Wallace has properly emphasized the need of a somewhat larger carryover under a system of controlled production than otherwise. His terminology for the necessary carryover under controlled production is the "ever-normal granary." In my judgment we should have an ever-normal granary for export as well as for domestic use. Otherwise in years when yields are low we shall find ourselves not having the cotton, wheat, tobacco, and lard wherewith to supply our foreign customers at reasonable prices; and thus will have got ourselves in the position of having ourselves withdrawn from our foreign markets. The countries buying our farm products need no such encouragement from us in becoming more self-sufficient.

The issue here involved is of great moment. Problems in planning and control are much simpler arithmetic when foreign elements are not taken into account. Negotiating trades with foreign representatives is tedious and irritating business. Under the strain of such situations even men with the high resolve of Secretary Wallace and his aides may be found slipping gradually into a feeling of indifference over retaining foreign outlets for our farm

products. We must at such times take counsel of patience, remembering all the years in the past in which we have been the arch-sinner among nations.

Many minds have turned inquiringly at this juncture toward the possible use of the original domestic allotment plan for such a crop as cotton. This plan would permit untrammeled production for export at world prices and help us hold our export trade. The administrative group in the AAA is fearful that even at world prices we would have a large expansion of acreage, and a piling up of an export surplus that would plague the domestic as well as the export market. Perhaps some system of separate allotments for domestic and export use could be devised; but new difficulties would thus be introduced into a scheme already difficult enough.

The other major adjustment problem is that of shifting from flat percentages of base production, as at present, to varying percentages according to conditions in the different competing regions. A small beginning was made in some early tobacco contracts, and the same idea is being applied in the 1935 corn-hog contract. Local adjustment committees are being permitted to vary the percentages between 10 and 30 percent for different farms according to special conditions on these farms. As long as the relative advantages of contracting or not contracting are kept as nearly equal as possible, then the relative advantages of 10, 20, or 30 per cent of base production will be nearly equal, and no great conflict need arise over such individual adjustments. The same principle can be applied to variations between regions; but it will need more careful handling. One cannot give the wheat growers in western Kansas a 30-per cent increase over last year, and those in eastern Kansas a 20-per cent increase, without being able to assure the eastern growers that they are as well off with their smaller quota as the others with theirs. This should be possible if the adjustments are properly analyzed, for the principle to be applied is the well-known principle of comparative advantage, and the most effective manner of applying it to such a problem is to estimate the relative effect on net farm incomes of various possible crop and livestock combinations, and select for any area the combination calculated to give the largest net incomes. Upon the results of such an analysis should variations in adjustments between areas and regions be made, taking prevailing or typical farm setups as the basis. Variations between individual farms in an area should be based on the same form of reasoning and estimation.

Obviously a large task in analysis basic to these adjustments is here laid out. The foundation for it is already laid in the mapping of type-of-farming areas in connection with the last census. Further steps consist of singling out the prevailing types of farming in these areas and assembling the facts and data needed in estimating the effects of various possible adjustments upon their net incomes. Here is a task for which farm management research has been disciplining itself for two decades.

More difficult, clearly, will be the task of getting the results of such analysis converted into action. Mr. Wilson and Mr. Tolley discussed this matter before the 1934 meeting of the Land Grant College Association. They insist that some democratic process must be developed for securing the desired action. Two paragraphs of their discussion read as follows:

> The second premise is that such adjustments or adaptations as are made through a planned program should be brought about through employment of democratic processes. This involves not only isolating the facts, which form the basis of a rational decision on an agricultural plan, but also bringing such facts in an understandable form to those who must make the decision, the farmers themselves. It also involves a technique of democratic approval or disapproval of plans that are proposed. An excellent start has been made toward such a technique through the use of referenda.
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> One advantage that the adjustment program has already effected is that it has carried farmers far in the direction of more unity of action. The fact that there are between three and four million farmers participating in adjustment programs means that the great majority of those engaged in commercial agriculture can plan together for more harmonious action. At the same time, the adjustment machinery has brought a much closer association of agricultural leadership. The experiment stations, the state colleges, the extension service, have not only a new meaning to farmers, they have a new meaning to themselves.

Perhaps the time will arrive when the farmers of competing regions, in the persons of chosen representatives, can gather around a table, examine all the pertinent facts, acquire a common understanding of the situation, and come to a sound agreement as to the allocation of acreages among them. Wilson and Tolley admit that a good bit of education and trial and error will be required, but are hopeful of the outcome, and ready to make a start, in a small way locally at first. Secretary Wallace has the same hope, but considers holding to the historically determined production bases as of vital importance until producers are ready to make a better system work. He would not prejudice the whole plan at this stage merely to save the economic losses arising from the faulty distribution of production in present allotments. In

this situation as always, Secretary Wallace easily finds other values that rate higher than current economic values.

Needless to state, the course of evolution of the production adjustment part of the program is highly uncertain. Farmers may weary of the troublesome details of present control methods. In particular, the good and true men who have borne the brunt of the struggle in each locality may tire of it, and others equal to the task may not come forward. This outcome will be the more likely if agricultural conditions improve substantially in the next few years. Also enough opposition may be stirred up by those who feel that they have been unfairly treated so that strong pressure will arise in Congress for repeal of the act. Finally the Administration in Washington may itself weary of its herculean labors and acquiesce in a proposal for repeal.

Should such repeal occur, and should agricultural production keep within reasonable bounds thereafter, with prices fairly satisfactory, we may be able to look upon production adjustment of the positive type contained in the present act, for the time being, as an interesting episode, like pegging the price of wheat in the World War. But if production expands and prices sag again, a strong reactionary grip on Congress will be needed to head off restoration of the same type of a program. The farmers will not soon forget that once they did join forces with the government and control their production and raise prices.

If the act is continued, we need expect no uniform pattern of its application. The tobacco growers will be most likely of all to keep it in force. Some producer groups may vote down control in the referenda that will be conducted; or they may vote it down one year and restore it the next. Some groups will rely on production adjustments mostly and others on marketing adjustments mostly.

The land-use planning part of the Administration program, while separate from the production adjustment part of it in administration, cannot be separated from it in actual operation. By far the most vigorous stroke in land-use planning thus far taken was the control of the contracted acres set up in the present crop contracts. If contracts can be arranged controlling total acreages in cultivated crops, and diverting erosion lands into pasture and meadow, a still more vigorous stroke will be taken. Every move in the direction of individual-farm, local, and regional variations in adjustments widens the possibilities along these lines.

But these measures concern only the land whch is now within present farms, about half our land surface. For the rest of our land, land-use involves forestry and grazing primarily, but also,

in degrees never duly emphasized, such other uses as recreational, watershed, highway and urban. Of course these other uses cannot be considered apart from agricultural use. They interweave with it in myriads of threads. This is particularly true of forestry and grazing uses, and in the so-called submarginal areas. Forestry without and within farms must be carefully integrated; likewise grazing. In sub-marginal areas the acreages in farms covered by allotments will determine whether or not families can make a decent living there. Hence the allotments need to be such as will allow them a living until some other plan can be worked out. In such areas, purchase programs must be harmonized with adjustment programs.

The third line of conjecturing about the future of the AAA program relates to the position of marketing in it. The adjustment act started out to be purely production legislation. Marketing was added to it in hasty and makeshift fashion at the last moment. In consequence, the measure cannot be considered as offering a well-rounded program with production and marketing in proper balance and relationship. We therefore can expect revision and expansion of the marketing part of the act. The Administration set forth upon this at the last session of Congress, but the farmers were not yet ready for it. Perhaps the particular proposals were none too well conceived, or were badly presented. No doubt a fresh start will be made in the coming session. By this time, the farm organizations are also ready with proposals. The committees of the impending Congress will be giving much time to marketing adjustment proposals.

It would appear that some of these proposals will take a new line. The Administration is likely to ask for legislation putting the financing of commodities in the ever-normal granary on a definite basis. Experience thus far indicates that producers will want to do a good deal of the carrying themselves and will demand government loans to help them. Needless to state such a venture has many pitfalls in its way; but the control of subsequent production that is combined with it makes it far less hazardous than the Farm Board stabilization operations. Strangely enough, some of the farm organizations will propose or support the Brandt plan; which, stripped of its superfluities, and brought down to earth, runs closely parallel in objectives to the Administration's plan. It proposes, Farm-Board fashion, definitely to peg the price by purchase of all offered for less, changing this price if necessary as marketing conditions change, and to dispose of stocks accumulated by export dumping or in uses of a lower order, making

up deficits from McNary-Haugen equalization fees. Subsequent restriction of production is to be used as a last resort. Obviously either procedure if successfully executed would reduce speculative price movements greatly; would increase them if badly executed. Each requires pre-judging prices with considerable success.

The major significance of these proposals is that they point toward a procedure of using marketing adjustments to follow up and support production adjustments, and vice versa, and thus to the more effective working of each. There is precedent for this in the combined marketing and production plans of some of our western cooperatives, and in a few of the marketing agreements in which quantities harvested are set to secure certain prices; also in the price and production control procedures in many of the NRA codes.

The prospects for good or evil in such a development are staggering to consider. The major question raised relates to the form of public participation in such controls. The same issue arises with respect to all marketing agreements. The adjustment act wisely makes the Secretary a party to all such agreements; he thus has power to accept or reject any price or production actions agreed to by the other parties. But only a superman could know enough about the conditions in all markets for all commodities to adjudge the wisdom and social equity of the actions proposed. Some form of strictly public agency within the local market or within the public generally affected must be set up to act as a board of first review. Granted that the public interest can be effectively represented in such institutions as the boards administering marketing agreements or the code authorities of the NRA, they have possibilities of becoming the oustanding politico-economic achievement of the generation. But even at the best, we can expect that many years will be required to learn their proper functioning and establish their place in our economic system. In the meantime, we do well to go slowly with all price-fixing and related production control efforts under marketing agreements.

I shall indicate the significance of the foregoing from a research point of view very briefly under three heads. Grant a wide degree of variation in the rate at which developments of the foregoing sorts will occur, there seems certain to be enough development in the next five or ten years to warrant the following forecasts:

A. Much more data of current developments will be assembled and analyzed than ever before. Millions of small entrepreneurs, each managing his own affairs entirely, can get along after a fashion following blind hunches; a public agency or an industry

board making plans for a whole industry cannot safely take a single step until it knows and understands fully the current situation.

B. Economic research will be much more sharply pointed than in the past, and hence will seem to be more utilitarian. There will be a demand for definite answers relating to specific proposals. Research will become the basis for action much more than in the past. It will accordingly be put to a severe test, and much that some prize highly will be condemned as futile. On the other hand, the useful research already done will be more highly appreciated than before, and the demand will be strong for more of its kind. Also the opportunities for testing out old hypotheses and sensing new ones and testing them, will be far richer than in the past. We shall in consequence make progress as measured in research results more rapidly than before.

C. Economic research will not be so sharply differentiated as in the past. The problems and situations analyzed will call for crossing of the boundary lines between disciplines. The most conspicuous lowering of barriers will be between economic and natural science research. But fully as important will be a closer interworking with research in government. A large fraction of the research demanded by the above will be politico-economic in character.

Discussion by H. R. Tolley

Agricultural Adjustment Administration

It is quite appropriate for one who is not a member of the Agricultural Adjustment Administration to discuss the probable future trends of agricultural adjustment as Dr. Black has just done, for most of us who are occupied day by day and hour by hour in assisting in the administration of the adjustment act are likely not to have the perspective to appraise trends and to forecast future developments accurately. Similarly, I trust it will be considered appropriate for one who is a member of the administration to discuss research in its relation to agricultural adjustment. Possibly we in the administration have a better appreciation than those outside, of the ways in which research results can be of service to the administrators of agricultural adjustment and to the farmers who are participating in it, and of the shortcomings of the present research programs.

The Agricultural Adjustment Administration has a keen appreciation of the need for results of research as a basis for its programs, and for the many administrative decisions that must be made. But it is the desire of the Agricultural Adjustment Administration not to become a research agency, provided other already established agencies can supply the research results which we must have. In the first place, the AAA is an operating agency and must continue to be primarily an operating agency rather than a research agency. In the second place, since we are an operating

agency, it would be difficult to maintain the objective attitude so essential to worth-while research. It is our hope that the established research agencies of the U. S. Department of Agriculture and the state colleges will be able to shape their research programs so that they will be able to supply most, if not all, of the basis of research results on which to predicate an action program of continuing agricultural adjustment.

In nearly every paragraph of Dr. Black's paper is mentioned a problem on which research of the right sort would throw light. On a great many of them no research results that will be of appreciable help either to the administration or to participating farmers are available. In many cases, programs will have to be developed and decisions made in the immediate future without this aid. I could list and discuss a great many fields of research and outline a great many research projects that would be very useful in agricultural adjustment but shall mention only three fields which seem to me particularly important at this time.

The *first* is research to supply a basis for regionalized adjustments in production, that is, research designed to show the best utilization of agricultural resources in the different agricultural regions and type-of-farming areas under a regime of adjusted production. Up to this time, "allotments" or "quotas" of the commodities included in the production adjustment program have been made among the various regions and areas, as well as among the farmers in each area, on the basis of past production. Some slight modifications of this method are being made this year, but it is recognized, both by the administration and by the farmers, that this method is neither economic nor just. The research needed here is of a sort that has been talked about a great deal by the economists but that has been undertaken by very few economists. As Dr. Black has said, it is research in comparative advantage, or if you prefer another name, research in inter-regional competition. Flat percentage adjustments in all regions from a historic base probably can not be continued for many years, even if the administration desired to do so. I hope that regional research programs of this sort can be organized in the very near future for at least the major regions of the country and that the research agencies of the United States Department of Agriculture and the state colleges will begin to supply farmers and administrators information and analyses that will help them in the allocation of fixed national production totals for the different commodities equitably among the agricultural regions and the type-of-farming areas of the country.

The *second* field which I desire to stress is research in farm management and farm organization or if you prefer, research in the economics of agricultural production in a regime of adjusted agriculture. A vast amount of painstaking research in this field has been done in the past two decades. But suddenly much of it has been rendered obsolete by the coming of the AAA. New factors of allotments and quotas, of benefit payments, and of penalty taxes for non-cooperation in adjustment programs, now have to be considered in determining the system of farming, and the methods and practices which will yield the greatest net returns. The farmers of the country have made greater changes in the organization and management of their farms in the past two years than they ever made in a like period before. And if agricultural adjustment is to continue, as Dr. Black seems to believe it will and as I believe it will, many further adjustments are ahead. Can not the farm management researchers supply the farmers of

the country with research results that will help them in these adjustments? And can they not supply the AAA with research results that will show the effects in terms of net income to individual farmers of adjustments of the kind that are likely to be called for in the years just ahead?

The *third* field is agricultural marketing. The AAA is charged with developing marketing agreements, and the Secretary of Agriculture is empowered to license handlers and processors of agricultural commodities to effectuate the policy of the act—to raise farmers' incomes. The marketing agreements can, to a certain extent, be instruments for adjustments, or reforms, if you prefer, in marketing methods and practices. The desired adjustments or reforms are those which will increase the efficiency of the marketing of agricultural products. In connection with the host of agreements and licenses which have been considered by the Administration many perplexing questions have arisen concerning proposed provisions designed to increase the efficiency of the marketing processes. It has been necessary for the administration to make decisions concerning these proposals. The right kind of marketing research would be of immeasurable help in making such decisions. When decisions must be made concerning production adjustment programs, statistics and information and oftentimes helpful results of research are available as a basing point for these decisions. But the situation is quite different with respect to marketing programs. More often than not decisions have had to be made entirely on the basis of preconceived ideas, hunches, and deductive analysis.

In closing, the great body of research in agricultural economics that has been built up in the last two decades has yielded results that have been of very great help in meeting the problems of the AAA, but, to use the words of Dr. Black, much that has been highly prized has been found not helpful for this purpose. Much has been rendered obsolete for other purposes by the coming of the AAA, unless, of course, the country decides to return to unadjusted and uncontrolled agricultural production.

In my opinion, the farmers of the country as well as those charged with the administration of the agricultural adjustment act or its successor, will expect research in agricultural economics and related fields in the future to be so organized that more and more of the results will serve as a basis of action in agricultural adjustment and related fields. This will mean correspondingly less emphasis on what might be called the "side-of-the-road" research; that is, research carried on in the spirit of one who sits by the side of the road and watches the world go by and confines his analyses and statements to that which has already passed.

Discussion by W. E. Grimes

Kansas State College

The scope of the topic of this paper is extremely broad. Many of the factors involved in Dr. Black's discussion, of necessity, were dealt with all too briefly. Dr. Black apparently believes that planning and control of agriculture are inevitable following recovery and the chief problems involved are the degree of planning and control and the implements to be used in securing and maintaining control. Many possible devices for effecting control are discussed but it is not always clearly evident which of these would be preferred.

Planning and control of agriculture are difficult. This may be illustrated by the suggested contracts with farmers to control feed crop production and in this way effect control of the production of livestock and livestock products. The expectation would be that, when reduced production is desired, feed crops would be reduced resulting in feed shortages and unfavorable feed-crop-livestock ratios. This would exert pressure on livestock producers resulting in reduced production. Such pressure would not be felt equally or at the same time by all livestock producers. Those producers depending upon purchased feeds would feel the pressure most acutely. Many of such producers are dairymen in the larger milk sheds. They could not be expected to be happy under the pressure exerted. These farmers are fairly well organized for effective expression of their grievances. Unquestionably they would be heard from in no uncertain terms.

Contrasted with these dairymen are those who produce their own feeds. The latter group may be able to maintain or possibly increase their production even with reduced feed supplies. This could be accomplished by conserving the use of feeds and using waste products not usually fed such as straw, corn stalks, and other by-products of crop production. An excellent illustration of such conservation of feed supplies is to be found in the changed feeding practices of farmers under the pressure of restricted feed supplies as a result of the drouth of 1934. Such a situation if continued for long could result in material shifts in the production of fluid milk unless other restrictions prohibited the expansion of particular milk sheds. This illustration is given to indicate the relative ease with which specific plans for agriculture may be criticized in contrast with the much more difficult problem of developing fool-proof plans.

In his paper, Dr. Black dealt with the needed research entirely too briefly to satisfy those responsible for such research. In the research under way, there have tended to be two viewpoints. One is that of the entire agricultural industry or of the entire production of a commodity. The other viewpoint is that of the individual farmer. The gap between these two viewpoints needs to be bridged so that plans for the entire production of a commodity may be coordinated with desirable changes on individual farms. Any plan for the control of agriculture must be agreeable to a majority of the farmers concerned or it can not be expected to succeed.

Dr. Black did not mention the possibility of securing at least a part of the needed adjustments through educational work with farmers who need to make adjustments which will help to secure the total changes desired. This would constitute a continuation of the educational work of the Agricultural Extension Service and increase of its intensity. Undoubtedly much could be accomplished in this way particularly in one-crop regions. Such a method would have the merit of being wholly voluntary and democratic. This could be supplemental to the methods suggested by Dr. Black.

Yet another possibility is the use of credit to secure desirable adjustments. By extending or withholding credit, it is possible to affect materially the production of many farm products. The dominant position of the Farm Credit Administration in the farm credit field offers opportunities to secure adjustments by this means. It is to be hoped that the activities of the Agricultural Adjustment Administration and the Farm Credit Administration will be still more closely coordinated than at present.

THE REPORT ON LAND OF THE NATIONAL RESOURCES BOARD[1]

M. L. Wilson
Assistant Secretary of Agriculture

In the brief time at my disposal today it is impossible to review in detail the mass of data and reasoning lying back of the report on Land Utilization and Policy submitted to the National Resources Board by its technical land committees. I can do little more than outline its contents and commend to you a study of the report at your leisure—it represents many points of view and is the latest contribution to the subject. It is my sincere hope that this report as far as the general reader is concerned will escape the pigeon-hole destiny of many other products of serious, conscientious and worth-while effort. It merits careful critical study by all agricultural economists.

Indeed, this is a report dealing with our basic asset, which deserves reading not alone in academic cloisters. I hope it can be popularized so that wide distribution will be given to its facts and conclusions—all with one aim, to bring the collective intelligence of the people the democratic approach to bear on the problems of land and the broad field of conservation. Then we might look forward with hope to the reshaping of old land policies and the formulation of new policies in line with current needs recognizing change.

The background of the Land Report goes, I suppose, to the founding of the Republic. In our land policies we can find a major segment in the history of the development of this country. I do not suppose there has been any decade since the opening of the nineteenth century when we did not have a lively national issue related in some way to land. But the movement towards thinking of land in terms of all of the people developed more slowly. Development of thinking which associated land with a program of public conservation was also slow in emerging. A great deal of progress was made with the rise of the Roosevelt-Pinchot conservation movement, centering on forest conservation. It has remained for more recent years to develop a new and broader consciousness of land as a national asset of diverse uses, an asset to be preserved and protected for the public welfare.

The Roosevelt-Pinchot conservation movement had a strong emotional current. Part of its spark centered about the rise of

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[1] This paper was read at the Twenty-fifth Annual meeting of the American Farm Economic Association, Chicago, December 26, 1934.

righteous indignation against graft and waste. It is not necessary now to analyze that movement. Certainly it came at a time when we had no vision involving comprehensive planning of land use. Its greatest accomplishment, in addition to arousing public consciousness regarding conservation was the establishment of the National Forest Service.

The experience of the U. S. Forest Service and its evolution has pioneered a way for the development of future programs. Its development encouraged technical training and research. It gained administrative experience in new fields. It blazed the way for types of relationship between a national agency and state and local governments with respect to creation of a system for a division of income, for cooperation in fire fighting and in other fields. In more recent years it has developed a technique for forest land acquisition, and more recently a base for noncompetitive work, and work relief through the C.C.C. camps.

There is another element which lies in the background of the Land Report which grew out of the land settlement movement from 1902 up to the World War. During this time the last of the important low-cost and free virgin lands were settled. Good land became more scarce. It was necessary for the settler to become more discriminating. A great many people found that the land on which they had settled was incapable of supporting them.

In some areas settlement, abandonment, resettlement, reabandonment, became the tragic order of land use. A great many people were victims of this process. A need arose for the development of more scientific and economic information relating to land. With this arose a greater realization by many people who knew that land requires thinking in human terms, that the country was suffering from a great human wastage attending misguided settlement and development, and that the social costs were such as to justify public action by local, state and national governments.

Still another factor lying in the background of the Land Report is the farm depression beginning in 1920. The years of agitation and education of the public to causes of farm distress resulted in a realization that we have an excessive agricultural plant capacity compared with existing markets and reduced foreign outlets. A great many people, searching for a solution, have concluded that a vital element in any solution, not only for the immediate problems but for those likely to arise in the future, revolves about the development of new land policies and the readaption of old policies which have been outgrown.

Recognizing new needs, the Department of Agriculture took a

very significant step with the establishment of the Division of Land Economics in the Bureau of Agricultural Economics. Under the leadership of Dr. L. C. Gray, important steps were taken, contemporary with similar research study movements in many of the colleges of agriculture, universities and experiment stations, producing a body of valuable and significant facts centering about the problems of land use and tenure.

This Division over a period of years, despite the fact that land discussion is often abstract and does not lend itself readily to popularization, has succeeded admirably. It brought to the front an increasing realization of contradictions in land policy by different agencies of the government and an appreciation of the need for land use planning. It brought to light new or little realized means of testing the soundness of various uses of land. It built up more discriminating attitudes towards land.

Other agencies in the Departments of Agriculture and the Interior, state groups, and the colleges and universities have made contributions towards a realization of the need for more comprehensive land studies, which culminated in the preparation of the Land Report for the National Resources Board. The establishment of state planning boards and the National Planning Board, is a new and significant development in the broader and coordinated aspects of land use planning.

President Roosevelt's realization of the need for economic planning was expressed in his creation of the National Planning Board of the Public Works Administration in 1933. This Board, which consisted of Mr. Frederick A. Delano, Dr. C. E. Merriam and Dr. Wesley C. Mitchell, aided in the establishment of planning boards in the majority of the states.[2] On June 30, 1934, the National Planning Board passed out of existence and the National Resources Board was created as its successor by executive order. The latter consists of the Secretary of the Interior as Chairman, the Secretaries of Agriculture, Commerce, War, and Labor, the Federal Emergency Relief Administrator and the three members of the former National Planning Board.

The Resources Board was instructed to have submitted to it reports on land and water and mineral use on or before December 1, 1934. To prepare these reports, the Board organized technical committees. The Land Planning Committee consists of the Assistant Secretary of the Interior, the Assistant Secretary of Agriculture, the Director of the Geological Survey, the Economic Adviser

[2] National Planning Board, Federal Emergency Administration of Public Works, Harold L. Ickes, Administrator, Final Report 1933-34, United States Government Printing Office, Washington, 1934.

to the Secretary of Agriculture, the Director of the Soil Erosion Service, the Executive Officer of the National Resources Board, the Assistant Administrator of the Federal Emergency Relief Administration, and the Chief of the Land Policy Section of the Agricultural Adjustment Administration. Dr. L. C. Gray was made Director in charge of the preparation of the report of the Land Planning Committee.

Government agencies which contributed to the report were the Geological Survey, the Soil Erosion Service, the National Park Service, the Bureau of Indian Affairs, and the Bureau of Reclamation in the Department of the Interior, and the Bureau of Agricultural Economics, the Bureau of Agricultural Engineering, the Bureau of Chemistry and Soils, the Forest Service, the Weather Bureau and the various sections of the Program Planning Division of the Agricultural Adjustment Administration in the Department of Agriculture. The extra personnel needed by these organizations for preparation of their contributions to the report were provided by the National Resources Board. The National Resources Board also provided a field force of 48 state land planning consultants, 10 regional land planning consultants and a clerical force for these consultants, who made rapid reconnaissance surveys to outline the major problems of land use requiring adjustment.

Preparation of the report was a rush job for all of the organizations concerned. Between July 1 and December 1 the personnel was assembled, field surveys were made, individual reports were submitted by cooperating agencies and a summary report was prepared, reviewed by the Land Planning Committee and submitted to the National Resources Board. A copy, embodying the report of the Land Planning Committee, reports by the Water and Mineral committees to the National Resources Board and the report of the Board of Surveys and Maps, together with the report of the National Resources Board itself, was delivered to the President on December 6, 1934. A much more exhaustive report on the problems of surface uses of land also was submitted to the National Resources Board on that date, but its publication has not yet been authorized.

A distinction needs to be made between the report of the National Resources Board to the President, which was released December 17, 1934, Part I, Section I (pages 8-26) which contains the Board's report on land utilization and land policy, and the report of the Technical Committee dealing with land utilization, policy and planning, which was made to the Board but, of course,

not by the Board. Therefore, the National Resources Board is not committed to its facts and findings. This report of the Technical Land Committee has not as yet been released.

Each of the agencies contributing to the report naturally wanted to be well represented in the recommendations of its report, and the Land Planning Committee was confronted with the difficult task of boiling down and integrating the individual contributions for the summary. The summary report, therefore, does not represent in all instances the exact views of the contributing agencies. If the longer reports of these agencies are published, however, it is expected that they will be left relatively intact.

Urging a reversal of old attitudes of heedless and planless exploitation of land resources, the report of the Land Planning Committee to the National Resources Board and the land section of the Board itself aims at a public policy of effecting land ownership and use calculated to serve public welfare rather than private advantage alone. The report attempts to estimate future requirements for land. It presents inventories of the available lands which may be used to satisfy these requirements. It points to maladjustments in land use and proposes policies and measures for correcting such maladjustments.

Future requirements for the various products and services of the land are based on population estimates prepared for the Committee by the Scripps Foundation for Research in Population Problems, at Miami, Ohio, pointing to a maximum population of between 141 and 144 millions soon after 1960; and on estimated exports of farm products requiring about 44 million acres in 1960.

On this basis and on the basis of certain assumptions regarding per capita consumption and trends in production per acre, it is estimated in the report that 386 million acres of harvested crop land will be needed in 1960. This is 27 million acres more than the harvested acreage in 1930. The report points out, however, that the necessity for such a crop acreage will depend upon the success of present efforts at tariff bargaining and general lowering of barriers to international trade, and that during the next few years, unless there is a decided improvement in both domestic and foreign demand for agricultural products, we shall need to shrink our present crop area. It gives an optimistic estimate of land requirements based on restored and expanded foreign trade, a middle course estimate, and an estimate based upon a nationalist world of limited foreign markets.

Requirements for forest products as such are not expected to necessitate a forest area greater than the present area of about

615 million acres (which includes the area in chaparral, juniper and other desert shrubs) but decidedly more intensive use of much of the present area. Recreational requirements and wild life refuges, water sheds, and erosion control will call for additional lands, which will be more or less jointly used for forests, wild life and recreation, etc. A considerable part of these requirements will be provided largely from land now little used.

While a great deal has been said concerning submarginal agricultural land and the desirability of removing it from cultivation, the surveys made to secure data for this report by the land planning consultants of the National Resources Board, in cooperation with various state and federal agencies, represent the first nation-wide effort to locate definitely and map the areas in which there is a substantial proportion of submarginal agricultural land now in farms as well as potential and to estimate the number of farms and the acreage of land which should be retired.

The maps of submarginal land and other land use problem areas prepared by the land planning consultants are only tentative and subject to considerable intensive research and revision. The time was far too short to permit of detailed field surveys, and the maps represent in most instances the judgment of the consultants based on such available data and advice as they could secure from state experiment stations and other institutions, supplemented in some cases by rapid reconnaissance field surveys.

As a result of these surveys, it is estimated that there are in the United States about 454,000 farms on land so poor that the operators have practically no chance of securing a decent living and on which the crop land should be soon retired from cultivation. The total area of these farms is about 75 million acres, and the crop area, about 20 million acres. Large areas of submarginal farms are found in the Eastern Highland and Ozark regions, the cut-over areas of the Lake States, the Gulf Coast and the Pacific Northwest, and in the semi-arid Great Plains, the Columbia Basin, and various sections of the intermountain states.

In these areas farm incomes and standards of living naturally are low. Either the public services and institutions are frightfully inadequate, as in the Southern Appalachian areas, or are provided at a cost so high in relation to income, as in the northern portions of the Lake states, as to impose an unbearable tax burden on the land.

The recommendations in the Resources Board's own report with respect to surface uses of land follow substantially the recommendations of the Land Planning Committee. There is no op-

portunity here for any except the most cursory review of the Board's recommendations. Briefly they include the following:

The present program for purchasing submarginal agricultural land and retiring it from cultivation should be continued, with a view of acquiring about 5 million acres a year for the next 15 years. This would involve the retirement of about one and a quarter million acres of crop land annually.

There should be a coordinated mobilization of all efforts, national, state and local, directed toward a program of erosion control. In the crop-reduction programs of the Agricultural Adjustment Administration increasing emphasis should and is being given to erosion control. It is possible that some kind of system of compensation for farmers for the planting of grasses and erosion preventing crops may be worked out.

A program for facilitating the consolidation of farms and for resettling surplus population in areas where farms are too small to furnish an adequate living to their operators and to provide for soil conservation, should be undertaken through the collaboration of the Department of Agriculture, the Farm Credit Administration and the Relief Administration.

The Departments of the Interior, Agriculture and Commerce should pass on the economic feasibility of all irrigation projects. Preference should be given to completion of development of existing projects.

Various steps are outlined for control of land settlement by the states, including the enactment of zoning enabling acts, modification of grants-in-aid to local governments and enactment of legislation to regulate real estate transactions. The federal government should withdraw the public domain lands from homestead entry (this was done recently by administrative order of the Secretary of the Interior), and should coordinate its credit and relief policies with a sound plan of land settlement.

Where land settlement appears necessary as an activity of the federal government, the various activities should be coordinated. No steps should be taken to facilitate the movement of any substantial number of unemployed people from urban areas into commercial agriculture, and subsistence homesteads should not be encouraged except where there is reasonable assurance of supplementary wage income.

Regulation of surface use provided in the Taylor grazing act should be extended to the remaining public domain.

Recommendations of the Forest Service with respect to ownership and management of the nation's forest lands are reviewed.

It is recommended that the federal government and the states acquire as rapidly as possible such areas as are clearly unsuited to private ownership either because they hold no promise of private profit when managed on a sustained yield basis or because they are associated with social values which cannot safely be entrusted to private interests. Various governmental encouragements to and regulation of private forestry in the public interest also are recommended.

While recreational activities assume a multitude of forms, a majority of which are outside the field of public action, governments have definite responsibilities with respect to recreation. It is recommended that the nation's present park areas of about 10 million acres be considerably enlarged.

Wild life management should be encouraged through the addition of about 40 million acres to bird and game refuges and by closer cooperation between state and federal agencies in regulation of hunting and fishing of federally owned land.

A program for rehabilitation of the Indian is recommended, to be brought about largely by acquisition of additional lands to compensate for lands lost to the Indians through the former allotment system, and through improved systems of credit and education.

The acquisition by states or counties of title to chronically delinquent lands is recommended, together with the establishment of competent agencies to administer such lands.

An agency to pass on and to coordinate all land acquisition programs of the federal government is recommended.

The recommendations of the Resources Board, if carried out, would involve a considerable amount of legislation. The Federal Government would need additional legislation for a number of purposes. The submarginal land purchase program should be provided with a permanent set-up and with sufficient appropriations to permit the purchase of about 5 million acres annually. The purchase programs outlined by the Forest Service, the Park Service, the Biological Survey and the Indian Service would involve appropriations of considerable size.

Additional legislation may be desirable to establish the long-time land planning function definitely in the Agricultural Adjustment Administration. While the Administration has been established on an emergency basis, it has built up in several of its branches the type of organization which would be necessary to deal with individual farmers in connection with certain phases of long-time land planning. For example, without additional legisla-

tion, certain changes might be made in the crop-reduction contracts which would provide for a certain measure of soil conservation. Compensation to farmers for soil-conserving practices, however, would require further legislation but the crop reduction contracts which have been made with farmers under the agricultural adjustment act have set a precedent and undoubtedly have paved the way for similar restrictive covenants with farmers which will compensate them for practices which, although involving expense to individual farmers, are in the public interest.

The Board's recommendations, furthermore, call for state legislation on a number of points. Zoning enabling acts are recommended to control undesirable settlement and to aid in the control of soil erosion. State legislation also would be required to modify state grants in aid to local government in such a way as to discourage scattered settlement and to strengthen "blue-sky" laws and laws relating to real estate transactions to protect buyers and sellers of farm land from fraudulent and unscrupulous practices. New legislation may be needed in some of the states to facilitate the taking of title to tax-delinquent lands and to provide for the efficient administration of such lands. Various new acts of state legislatures also would be necessary to carry out the Forest Service recommendations regarding aid to and regulation of private forestry.

Throughout the recommendations of the National Resources Board there constantly appears the need for coordination and integration of the activities of the numerous agencies of the federal government concerned with land use and of the activities of the Federal and State Governments. At least nine distinct federal bureaus in several departments have major responsibilities for land administration, and a much larger number are carrying on investigational, mapping and service functions. The objectives and procedures of these agencies are widely varied.

To secure proper coordination of such functions as forest management and protection, game management, and recreational administration of government owned lands, the Resources Board recommends the breakdown of responsibility among administrative agencies on an areal rather than a functional basis. That is, in specific areas, there should be centralized responsibility for the various functional aspects of land administration, which should rest with the agency responsible for the major form of land use in the area. Thus, while the agency responsible for the administration of an area might be agricultural, range, forestry, re-creation or recreational, depending upon the major use of the

land in the area, planning for other than these special uses would be a function of such an agency.

For the general task of integrating the land planning functions of the Federal Government and of encouraging coordination of state and federal activities of this nature, the National Resources Board recommends the establishment of a permanent land planning agency, which would be a part of a general National Planning Board.

The National Planning Board as recommended by the Resources Board, would be responsible directly to the President and be independent of all existing departments. It would have not more than five members, appointed by the President for indefinite terms, and in addition, a rotating panel of consultants, appointed by the Planning Board. The panel would constitute an advisory group with a voice but not a vote in the findings and recommendations of the Board.

The land planning section of the Planning Board would be served by a secretariat of the Board and would have an advisory committee consisting of representatives of the federal bureaus primarily concerned. The functions of the land section as set forth in the summary of the Resources Board's findings, would include action as a clearing house for all projects involving purchase of land by federal agencies to prevent competition and to secure coordination with state and other plans; recommendations on proposed transfers of jurisdiction over lands among federal agencies, such as public domain, Indian reservations, forests, parks, grazing districts, etc., advice as to coordination of land management policies to encourage consistent erosion control, wild life, recreation, grazing, forestry, and similar policies on lands under the jurisdiction of different federal agencies; aid in coordination of research projects on land use to prevent duplication of effort; and assistance in negotiations between federal and state agencies in developing land policies where both federal and state action is needed.

The proposed land planning agency should not be charged with the administration of publicly owned land, nor should it build up a large investigational staff; it should depend for the bulk of its basic research upon existing research agencies.

The report of the Land Planning Committee of the National Resources Board recommends the building up of a comprehensive land policy and organization through a "problem area" approach —an approach which will take account of all land problems and phases of land use rather than attack some individual problem, and will point toward both readjustment of present use and de-

velopment of new constructive uses. The experience and knowledge derived from actual inventory, planning and administration of such problem areas, the Committee points out, will provide a valuable basis for future permanent organization and procedure.

The most significant sections of the report of the National Resources Board, as it relates to land use planning, are as follows:

I. LAND PLANNING RECOMMENDATIONS

A. Continuous Planning

1. That a permanent Land Planning Section of the National Resources Board or its successor be established, with an advisory committee consisting of representatives of the federal bureaus primarily concerned and served by the secretariat of the Board.
2. That the functions of the Land Section should include:
   (a) Action as a clearing house for all projects involving purchase of land by federal agencies to prevent competition and to secure coordination with state and other plans.
   (b) Recommendations on proposed transfer of jurisdiction over lands among federal agencies, such as public domain, Indian reservations, grazing districts, forests, parks, etc.
   (c) Advice as to coordination of land management policies to encourage consistent erosion control, wild life, recreation, grazing, forestry, and similar policies on lands under the jurisdiction of different federal agencies.
   (d) Aid in coordination of research projects on land use to prevent duplication of research in different bureaus or overlapping of field investigations and demands on service agencies.
   (e) Assist in negotiations between federal and state agencies in developing land policies where federal as well as state action is needed.

VII. CONTINUOUS NATIONAL PLANNING

1. That an advisory National Planning Board be set up consisting of five members appointed by the President of the United States, to serve as a general staff for the Chief Executive.
2. That the functions of the Board should be advisory and not executive and should include—
   (a) Coordination of planning policies within the Federal Government.
   (b) Coordination of planning policies between federal, state, and local jurisdictions.
   (c) Stimulation and assistance to the planning agencies within the Federal Government and in regions, states, and localities.
   (d) Fundamental research directed toward the development of basic national policies and programs.
3. That the staff of the Board under a Director be organized as a secretariat responsible for keeping in touch with planning agencies in departments and bureaus and serving as a liaison or agency with coordinating committees and special committees concerned with various aspects of national planning.
4. That continuing advisory committees, including representatives of fed-

eral agencies primarily concerned, be set up dealing with long-time public works planning, land use, water resources, mineral policy, and mapping.

The report of the National Resources Board is concerned with broad national planning policy. It does not go into specific problems of state and local administrative relationships and coordination. However, it much more than hints at its outlook in this direction when it says:

Recommendation V. STATE AND REGIONAL PLANNING

1. That the states be encouraged to establish permanent state planning boards and to develop as promptly as possible adequate state planning programs.

2. That continued cooperation with and encouragement of state planning and local planning work should be one of the primary obligations and activities of the proposed National Planning Board.

Discussion by George S. Wehrwein

University of Wisconsin

Secretary M. L. Wilson and myself have been handicapped in preparing these papers by the fact that the Report upon which our discussion is based was not available until a few days ago. He has reviewed for you the contents of the Report and the recommendations contained therein. Perhaps I may contribute something by a further analysis, and by emphasizing some of its findings on land utilization for agriculture, forestry and recreation.

There are two parts to the section which we are discussing.[1] The first deals with land requirements, the second with maladjustments in land use and proposed lines of action. It is interesting to note the methods of arriving at the requirements. The requirements for agricultural land are based upon an anticipated increase in population of 15 to 17 million people by 1960 with little increase after 1960, and a slow decline by 1970. Assuming the full restoration of the cityward movement of rural people, the increased population could be fed and clothed by a farm population about as large as the present. An additional 20 million acres of crop land will be needed, which will have to be augmented by 10 million acres if foreign exports are restored. Since 25 million acres of crop land are to be retired by the submarginal land purchase program and the farmers placed on better land, the total requirements for the next 25 years are placed at 55 million acres of crop land.

On the other hand the Report suggests that the farm land requirements will be quite different if the normal migration to the cities is not restored. With at least 3 million more people on farms than when the depression started, and a backing up of half a million people per year who have to remain there if no place can be found for them in industry, the land re-

[1] Discussion is confined to "Land Utilization and Land Policy" (pp. 8-25) of *National Resources Board, A Report on National Planning and Public Works in Relation to Natural Resources and Including Land Use and Water Resources with Findings and Recommendations.* December 1, 1934. Submitted to the President in accordance with Executive Order No. 6777, June 30, 1934.

quired to maintain these millions on "self-sufficing" farms is another story. This is the other extreme from normal migration to urban centers, and is not elaborated in the Report.

In contrast with this mechanistic determination of farm land requirements, the forest land needs are presented as much more flexible and more in economic terms. "Timber requirements are influenced in a large measure by the available abundance or scarcity of timber and of land available for producing it."[2] Here is a recognition of the influence of price on demand. But the use of forests for watershed protection, erosion control and recreation makes it easy to shift from purely economic requirements to non-economic uses in the argument for more forest land. The Report uses the annual consumption of previous years as the basis for future demands.

The requirements for recreational land are much more ambiguous. They can hardly be stated in terms of acres, and their character, accessibility and coordination with other land uses such as forests make estimates almost impossible. After stating the acres of land needed for agriculture, forestry and recreation, the Report does not present a plan stating where, how and by what means the nation will get the areas required. Some reference to this is made in the next section. It is hoped the completed Report will supply this information.

The maladjustments in land use and proposed lines of action can be restated under the heads of public and private land. Among the former are the suggestion for the withdrawal of the public domain from further homesteading, the Indian policy and the enlarged national park system. Forest land has both public and private aspects. The Report recommends 231 million acres in private forests and public forests as follows: 292 million acres in federal ownership, 69 millions by states, 3.8 millions acres by counties, and 900,000 acres by municipalities. However, the intensity of management is more important than mere acres in determining production. It is interesting, therefore, to find that 295 million acres are recommended for intensive management, or almost 50 per cent of the 596 million acres. This is larger than the area recommended by the Copeland report, because it is based upon local needs. The purpose seems to be to make every locality self-sufficient. That this might prove highly uneconomic is recognized by the Report when it says (p. 21):

"It does not follow, however, merely because the interests of particular localities would be advanced in the immediate or remote future of intensive forest management, that either private timber owners or Federal or State Governments would be justified in incurring the necessary cost throughout the aggregate estimated area. In all cases there should be a careful balancing of costs against the value of prospective returns including the consideration of the social values. Some of the important social values are not dependent upon either intensive forest management or even the production of commercial timber."

It is recommended that the Federal or State Government take over forest land which the private owner cannot use profitably. This would include all forest land on which social values predominate. However, the private forest owner is to be aided by a more scientific readjustment of tax burdens, public credit at low interest rates, and adequate fire protection. On the other hand, the private owner is to be subject to public regulation

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[2] *Report*. Op. cit., p. 13.

requiring compliance with certain minimum silvicultural standards and sustained yield management. The significance of these recommendations lies in the complete departure from *laissez faire* in forest land. This is seen is not only the increased areas of public forest, but in the cooperation of the government with the private land owner to enable him and perhaps force him to manage his property in the public interest.

Agricultural land has been private property *par excellence*. The individualist farmer has always been lord of all he surveyed in contrast with the urban land owner who has had to utilize his land subject to zoning laws, building height limitations and other restrictions.

The recommendations of the Report suggest changes in property rights in this field also. The first suggestion deals with a program already under way, namely, the purchase of submarginal land by the Federal Government, and the transfer of farmers to better lands. The preliminary estimates of the land planning consultants indicate that 75 million acres of submarginal land should be retired. This is quite a departure from traditional policies of disposing of the public domain in order to create as much private land as possible irrespective of its quality or location. However, it should be recognized that the program rests upon the consent of the land owner. There is no suggestion that eminent domain should or could be used for this purpose.

The control of erosion is particularly a matter which lies strictly within the line fence of the farmer, although the consequences of erosion affect not only the land owner, but his neighbors, highways, navigation and flood control. Immediate action is recommended. "A national land policy should provide for the coordinated mobilization of all efforts, national, state and local, to control erosion. It should aim at the establishment of erosion control measures on all of the most serious areas within 10 years, and effective checking of erosion in these areas in 20 years" (p. 17).

If I interpret this paragraph correctly, it proposes to confine erosion control "to the most serious areas." If that is true, we will always be patching up after the damage is done. It is more important to devise means to encourage and aid farmers to prevent erosion on the much larger area in danger of losing the top soil instead of rehabilitating the land after serious losses have occurred. Some of the most seriously eroded places should be abandoned to nature, and effort and money spent on prevention. The Report suggests voluntary cooperation wherever possible, but that public assistance and control may be necessary in some instances. Perhaps this is all a general report could say at this time, but the big problem of public control over private land is still to be worked out. Over 225 million acres of cultivated land are more or less subject to erosion, yet no form of regulation can reach the owner as matters now stand. How far the police power can be used to control the utilization of agricultural land is still to be determined. We may have to begin with education and inducements such as are being set up by the Soil Erosion Service and use control as a last resort.

In view of the fact that some 55 million acres of land will be brought into crop use during the next quarter century, suggestions are made as to methods of controlling and guiding the settlement and reclamation of new land. The selection of land is under the control of the government in so far as it own activities are concerned. Since the plan of submarginal

land purchase calls for the replacement of 75 million acres of submarginal land with its equivalent in good land, and since the Federal Government is also placing farmers on reclamation projects and promoting the subsistence homesteads as a permanent national policy, the Federal Government is the most gigantic land settlement agency we have ever had. Its policies in connection with its own activities, will, therefore, be highly important. It is significant that the Report recommends, "That no steps be taken to facilitate a substantial movement of unemployed people from urban areas into commercial agriculture." Secondly, it recognizes the conflicting agencies in the federal departments, and recommends "the more adequate coordination of existing federal land-settlement programs, including the subsistence homesteads program, the rehabilitation program, and the reclamation program, and that the entire settlement program be fully coordinated with such broad plans of land utilization as are recommended in this report" (p. 20). In another place it is suggested that the ten or a dozen different land-acquiring or administering agencies be coordinated, and their program be made to dovetail with those of the states. States likewise need to adopt land policies consistent with public welfare (p. 24).

It is significant that the Report recommends that the economic feasibility of irrigation projects should be demonstrated before they are undertaken. In the case of federal projects, this is to be determined by the Departments of Agriculture and Interior in conjunction with a coordinated planning agency. Federal funds should be expended only where there is a national benefit as well as a regional or local benefit. Not only farmers, but other individuals and communities benefited by such projects should be required to incur obligations commensurate with the benefits. These and similar recommendations show the tenor of the Report in regard to irrigation and drainage. It would be interesting to apply them as yardsticks to some of the recent developments in these fields!

Regulation of settlement by private individuals is suggested. States are advised to control land dealers and to enact zoning legislation in order to zone out land submarginal for agriculture, or where settlement is contrary to public interest. The Federal Government should coordinate its credit and relief policies to discourage the settlement of unsuitable areas. States should modify their aid policies for the same purposes.

In connection with zoning the use of the police power is definitely recommended as a means of controlling the utilization of non-urban land. The courts still have to decide the reasonableness of this use of the police power. It should also be pointed out that mere negative zoning is not enough. Supplementary legislation is needed to help or induce the owners to use land in the manner prescribed by the ordinance. It is not enough to prohibit agriculture in a so-called forest zone. Unless a forest district on paper becomes a forest on the land, less than half will have been accomplished. Finally, the suggestion that the state withhold its aids needs careful consideration. Shall the children be deprived of their education just because the father insists on his rights as a property owner?

Let me point out, however, the significance of this Report as a landmark in our thinking with respect to land and natural resources by citing just two illustrations. Only 50 years ago it would have been impossible to create a federal forest by merely reserving a part of the public domain. Now we are on the way to buy 75 million acres of submarginal land and restore them

to public ownership. Twenty-five years ago Van Hise said in his *Conservation of Our Natural Resources:* "As rapidly as a sentiment can be developed for their enforcement, laws should be passed which will prevent the neglect of the land. The precautions necessary to prevent excessive erosion may be enforced by law, since they vitally concern the common welfare not only of this but of all succeeding generations." At that time few people were willing to go as far as that, but today sentiment is rapidly being developed for a policy of encouragement, aid and regulation to control erosion on private land.

PROGRAM OF THE FEDERAL GOVERNMENT FOR THE PURCHASE AND USE OF SUBMARGINAL LAND[1]

C. F. Clayton
Agricultural Adjustment Administration

In recent years references have frequently been made to the so-called "New Public Domain." The use of the adjective "new" suggests a comparison between the public domain contemplated by these references and the original public domain. We are reminded of that enormous area, amounting in the aggregate to 1,300,000,000 acres, comprising the original public domain. The occupation, settlement, and appropriation of the original public domain provided not only the longest but perhaps the most significant chapter in American history.

A casual reference to a few of the major economic and social forces which characterized what is known as the "frontier period" in American history will suggest important contrasts between that period of American life and the present. A brief reference to these contrasts may serve also to indicate some of the important implications of a program which points to the creation of a "new public domain."

In the period of the old frontier, American economic and social life was highly fluid and had in it a large measure of elasticity. Virgin lands of high agricultural productivity were available for settlement along the westward-moving frontier, providing an important and continuous outlet through which adjustments to problems arising in the older and more stable eastern communities could be postponed or avoided. Moreover, the scale and organization of industrial and social life in America during the frontier period shifted so rapidly under the influence of improvements in mechanical processes, expanding markets, and a rapidly increasing population, that the incipient problems of an existing situation tended to be submerged in the pursuit of new opportunities for attaining wealth, security, and independence. The pursuit of these opportunities took shape in large part through the appropriation and exploitation of vast natural resources which the American people have only comparatively recently come to realize are not, after all, inexhaustible.

Broadly, the old frontier has given to the American people two heritages. On the one hand, the hopes and aspirations which motivated the appropriation of the public domain, and the physi-

[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 26, 1934.

cal hardships associated with the life of the pioneer, placed a premium upon the individual and inculcated a general tendency to discount the importance of the community as a factor in social life and the need for adjustments of individuals to community life as a mode of living. The social consequences of these and similar forces and influences, characteristic of the old frontier, come to us as a heritage of that period. Those "habits of thought" and underlying "preconceptions," to use the phraseology of the late Thorstein Veblen, which condition an individual's behavior, are in American life chiefly the product of the frontier. Many of the "institutions" which we are frequently and often vociferously called upon to preserve as sacred heritages of American life, we owe largely to those habits of thought derived from the conditions of the frontier period.

In addition to this spiritual heritage, the frontier has given us also a physical heritage in lands, mines, forests, and other natural resources.

Today, therefore, as the people of this generation turn to face a new frontier and to envisage the creation of a new public domain, we find in these spiritual and physical heritages, derived in large part from the conditions associated with the appropriation and exploitation of the original public domain, the need for a new pioneer. Increasingly it is evident that the spiritual equipment of the old pioneer must prove inadequate to make the adjustments required to meet the conditions that now confront us. The creation of a new public domain involves adjustments in the spiritual as well as in the physical resources of the American people.

In methods proposed for meeting the problems of the present we find many suggestions of the old and, under earlier conditions, relatively effective process of solving the problem by fleeing from it. Only slowly are we coming to realize that in their industrial and social progress the American people have reached the point where their problems can no longer be avoided by moving away from them or solved by the mere process of growth of our economic and social organization from adolescence to maturity.

In a physical sense there is no longer any place to go; in an intellectual sense our old frontiers still interpose barriers to the discovery and conquests of the new.

The Government's program to acquire poor land and to convert that land to uses for which it is better adapted is a recognition of the fact that the physical resources available for the creation of a new public domain are sadly deteriorated from the condition

which characterized the original public domain. Less obvious, perhaps, is the need for recognizing some substantial obsolescence in our spiritual heritage—our equipment of ideals and standards of truth and right—which the old frontier has bequeathed to us. For the task of finding for ourselves places of security on the frontiers of modern industrial and social life, we find in our spiritual heritage the same evidence of inadequacies which characterize the physical assets available to us for the creation of a new public domain.

The creation of a new public domain must be visualized as a pioneering effort, involving not only adjustments in the utilization of our physical resources and in the mechanism of our industrial and social life, but involving also equally drastic and even more significant adjustments in our economic and social philosophy. Attempts to devise ways and means to reach an objective, which in itself does not command the assent of individuals who compose the nation or the community in whose interests the proposed adjustments are presumably undertaken, is doomed to failure from the start. It is, accordingly, somewhat unfortunate that the Government's program involving the conversion of large acreages of land from private to public ownership and the utilization and administration of that land by public agencies, should be initiated under the urgencies of an emergency program. Action may be effectively taken and results which appear on their face to be desirable and beneficial, may apparently have been achieved. These gains may, however, prove wholly illusory, if the results have been achieved through mere acquiesence. A situation may be so bad as practically to impose acceptance of a program of adjustment on the ground that a change could not lead to worse, and might lead to better conditions. The real foundation of our hopes for the effectiveness of emergency adjustments, it seems to me, is to be found in the prospect that the stress of existing maladjustments may lead to the development of a psychology with which the modern pioneer may effect the conquest of new frontiers in the domain of public administration and of economic and social organization.

We must recognize, I think, that the immediate objectives of the Government's land acquisition program are of little import to the future of American life unless the broader implications of its limited and partial objectives are clearly recognized. The major objectives of the program include: (a) conversion of poor farm land to other uses with the primary objective of eliminating or reducing agricultural production upon poor land at a minimum

cost; (b) protection and utilization of lands to retard or prevent erosion, and restore the physical productivity of the soil; (c) improvement of the economic and social conditions of families now occupying the lands acquired; (d) improvement of the economic and social condition of "industrially stranded population groups" occupying essentially rural areas, including readjustment and rehabilitation of Indian population by the acquisition of lands to enable them to make appropriate and constructively planned use of combined land areas in units suited to their needs; (e) reducing the costs of local governments and of local public institutions and services; (f) encouragement of the planned use of rural lands by setting up experimental projects to serve as repeatable demonstrations of types of adjustments applicable to various regions in the United States.

In the selection of sites for projects, the aim is to choose areas in which the land is now predominantly used for agricultural purposes and generally yields an insufficient return to provide a reasonably adequate living for those residing on such land. The acreage proposed for acquisition should normally embrace a unit of sufficient size for efficient administration and effective utilization under the plan of use and development proposed. The project as a whole should have the effect of reducing or eliminating agricultural production on poor land; hence sites should embrace a considerable acreage in occupied farms, although abandoned farm land, forests, and cut-over land may be acquired to block up a purchase area. On the other hand, farming need not be wholly eliminated as a type of land use within a proposed purchase area. In fact, the reorganization of farms, which may or may not involve relocation of farm families, particularly with a view of associating part-time farming with employment off the farm, may frequently represent an important feature of the plan of use and administration of the lands acquired.

Projects undertaken under this program are of four major types: (a) Agricultural demonstration projects; (b) Recreational demonstration projects; (c) Indian lands projects; (d) Migratory waterfowl projects.

Agricultural demonstration projects are those in which the major use (or combination of uses) of land to be purchased includes farming, forestry, game protection or propagation, or other uses falling within the administrative jurisdiction of the Department of Agriculture.

Demonstrational recreational projects are those in which land

to be purchased is to be used primarily for parks, small outing areas, or similar recreational purposes.

Demonstrational Indian lands projects are those in which land to be purchased is to be used primarily for the benefit of the Indians.

Migratory waterfowl projects are those in which the land to be purchased is to be used for the development of refuges along the migratory paths of waterfowl, and to provide a basis for the establishment of a system of game tags and wardency to increase the cash income of adjacent population groups by providing employment.

Migratory waterfowl projects under the definition given of agricultural demonstration projects, are in reality a special category of projects falling within the latter group. Projects established for the propagation and conservation of upland game are, however, for purposes of administrative responsibility, considered as agricultural demonstration projects.

The funds available for the initiation of projects of these four types are derived from an initial grant of $25,000,000 by the Special Board of the Public Works Administration made to the Federal Emergency Relief Administration. This fund of $25,000,000 was subsequently supplemented by the allocation from the deficiency bill appropriation of additional funds to the Federal Emergency Relief Administration for the acquisition of lands under the program.

By arrangement with the Federal Emergency Relief Administration, the Land Policy Section of the Agricultural Adjustment Administration, the National Park Service of the Department of the Interior, the Bureau of Indian Affairs of the Department of the Interior, and the Bureau of Biological Survey of the Department of Agriculture have been made responsible, respectively, for initiating and planning agricultural demonstration projects, recreational projects, Indian lands projects, and migratory waterfowl projects. With slight modifications as to procedure, projects of these four types are submitted to the Federal Emergency Relief Administration by the agency responsible for their initiation, with a recommendation for the acquisition of the lands involved.

The investigation of problems of relocating and rehabilitating the population occupying submarginal lands acquired in connection with projects of these types, and the planning and execution of a program for this purpose is a function of the Federal Emergency Relief Administration. The Federal Emergency Relief Ad-

ministration operates through state rural rehabilitation corporations. Each of these state corporations includes on its board of directors the regional director of the Land Program of the Federal Emergency Relief Administration, who is employed by, and serves as regional director for, the Land Policy Section, Division of Program Planning, Agricultural Adjustment Administration.

These regional directors, of whom there are nine, serve as the coordinating medium through which submarginal land projects in states embraced by their regions are routed. Their function in relation to the submarginal land purchase program is to bring the several interested agencies of the state into cooperative activity in submarginal land acquisition and in the resettlement and rehabilitation of families at present occupying submarginal land acquired; to recommend to the Land Policy Section for appointment project managers and other personnel for specific projects within the states and in general to supervise the development of the submarginal land acquisition program in the states within their several regions.

On December 1, 1934 there were 64 agricultural demonstration projects distributed among 42 states under active consideration by the Land Policy Section. These projects involved the proposed acquisition of 5,881,314 acres. The lands embraced by these projects under option on December 1 were offered at an average price of $5.42 an acre. If, therefore, the entire acreage proposed for purchase on December 1 were acquired by the Federal Government at the price per acre for the land under option, the expenditure involved for projects of this type would amount to $31,876,722.

There were 37 recreational demonstration projects under active consideration on December 1, involving the proposed acquisition of 433,667 acres. These projects were distributed among 21 states. The land under option was offered at $12.04 an acre. If all the land proposed for purchase in connection with these projects on December 1 were acquired at this price, the expenditure involved would amount to $5,221,351.

There were 52 Indian lands projects, distributed in 13 states, under active consideration on December 1, involving the proposed purchase of 1,857,163 acres. The land under option on that date was offered at an average price of $3.60 an acre. If all the land proposed for acquisition on December 1 were bought at this price, the expenditure would amount to $6,685,787 for projects of this type.

On December 1 there were 21 migratory waterfowl projects under consideration. These projects were distributed in 14 states along the fly-ways of migratory waterfowl. They involved the proposed purchase of 569,992 acres. The acreage under option on December 1 was offered to the Government at an average price of $7.33 an acre. If the entire acreage proposed for acquisition were acquired at this price, the total expenditure involved would amount to $4,178,041 for these projects.

For all types of projects there were, therefore, 174 under active consideration on December 1. These projects were distributed among 45 states and involved the proposed acquisition of 8,742,136 acres, of which 2,461,564 acres were under option on that date. If the entire acreage proposed for purchase in these 174 projects were acquired by the Government at the average prices of the land under option on December 1 for the various types of projects, the expenditure involved would amount to $47,961,901. Additional projects are being initiated and in a number of projects the acreage proposed for purchase is being increased.

Under the legislation governing the expenditure of funds available for this program, the purchase of land must become an obligation of the Government not later than June 30, 1935. This does not necessarily mean that actual transfer of title must be effected. It does mean that the land must be under option and that these options must have been accepted by the Federal Emergency Relief Administrator before the close of the present fiscal year on June 30, 1935.

This is a large task which, if accomplished, would probably transfer to federal ownership approximately 12,000,000 acres of land. The problem of the administration of these lands is of course most important. Numerous and difficult questions are involved. Some lands acquired may best be administered by existing agencies of the Federal Government engaged in land administration, such as the Forest Service of the Department of Agriculture, the Division of Grazing Control of the Department of the Interior, and other agencies. Many areas, on the other hand, will appear to be best adapted to local administration through state departments of conservation and similar agencies. Apparently the most effective means for effectuating such an arrangement is through the medium of a long-term lease. Probably this lease should carry a stipulation which would make its renewal contingent upon the preparation by the responsible state agency

and submission for approval to a designated federal agency of an annual plan for the management and administration of the lands.

Since the policy of the Federal Government is aimed essentially at the development of sound plans of land use and administration, there appears to be no valid reason for requiring more than a nominal rental for such lands as may be placed under the administration of state agencies. On the other hand, since the lands are in federal ownership, and therefore exempt from taxation by state and local governmental units, a problem arises as to the allocation of a portion of the revenues which may be derived from such lands for the support of the institutions and services of state and local governments. This problem in its immediate setting may appear to rest on an unsound presumption, in view of the fact that much of the land proposed for acquisition by the Federal Government is not now a source of revenue either to the state or to the local government because of extensive tax delinquency. It may be argued with reason, also, that the relocation and rehabilitation of families occupying these lands will in effect both reduce the costs of, and increase the sources of revenue available to, local governments and that, therefore, the local governmental unit has no substantial basis for a claim to any portion of the revenue which may be derived from the utilization of the lands acquired. The arguments are, however, not decisive. There is always the prospect, however remote, that such lands may ultimately be returned to the tax rolls and thus become a source of revenue to the local governmental units. Probably any extensive program of federal acquisition must contemplate a diversion of at least a portion of such revenues as may be derived from these lands for the support of local institutions and services. These problems can only be mentioned here. They serve only to illustrate the complexity of the field of land-use planning.

In this field the program of the Federal Government for the purchase and use of submarginal land must be recognized as only a preliminary and experimental approach to the solution of special phases of the general problem of land-use adjustment, which may be effected or facilitated through public acquisition of land. While recognizing the important place which public acquisition and administration of lands must have in any plan for dealing effectively with our land problems, it is even more important to recognize that a program broader in scope and more comprehensive in character is essential to the solution of these problems. Land-use adjustment, moreover, is necessarily related to prob-

lems of adjustment in our general economic and social organization. For the solution of these problems we must have courage to accept the risks of experimentation and to challenge the hazards of new frontiers.

Discussion by W. D. Nicholls

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My comments on the question of submarginal land purchase will refer particularly to that large section of the United States embraced in the Appalachian Mountain Area, including parts of West Virginia, Virginia, Kentucky, Tennessee, North Carolina, South Carolina, Georgia and Alabama. A study of maps compiled by the Federal Emergency Relief Administration shows a marked condition of poverty and a concentration of the relief load in this territory.

For the past several years the writer has had a part in the study of economic and social conditions in this territory in connection with state land use research projects, part of which were carried on in cooperation with federal agencies, including the Bureaus of Agricultural Economics and Home Economics, the U. S. Forest Service and the F.E.R.A. These studies have included all of the 34 Eastern Kentucky mountain counties and were concerned principally with the following phases of the social and economic problems of the area: a classification of the land and a determination of the amount and sources of the incomes of groups of representative families; the cost of production of the various crops on land of varying steepness and fertility; population and the movements of population during the past 30 years; standards of living of representative families; churches, schools, roads, and home industries; intelligence tests on the children in typical schools; timber growth and forest production and an analysis of the opportunities for acquiring land suitable and available for the resettlement of surplus populations.

The 34 counties which comprise this Kentucky mountain region have a total area of 12,000 square miles and a population of 764,000, or nearly one-third of the total area and population of the state. The greater part of the area is unsuited for agriculture, yet more than three-fourths of the people of the area live in the country. The population is as dense as that of the good agricultural counties of Kentucky.

For more than a generation the people of this region have derived a great part of their incomes from such non-farming sources as lumbering and coal mining. Thus in 1929, out of a group of 228 typical farm families, only 15 per cent derived their living mainly from farming. Since 1929, the opportunities for gaining an income from non-farming sources have largely disappeared. This lack of outside sources of income, coupled with the small amount of good agricultural land per family, has resulted in widespread poverty. During a considerable part of the past two years, more than half of all families in the 34 counties were receiving some type of relief. A fact which added materially to the difficulty of the situation was that many families which had previously gone out from the region to engage in mining and other industrial occupations were forced by the shutting down of these industries to return to the communities from which they

had emigrated. This added a further burden to the already limited housing and food producing facilities. A total of 7,600 families returned to 22 Eastern Kentucky counties during the two years prior to March 1, 1932, increasing by one-sixth the families in those counties.

The studies showed that during the past two decades a markedly greater exodus took place from the rougher lands than from the more level lands and a much larger rate of return of families to the rougher lands when the depression forced a shutting down of industry. For 11 school districts in the rougher, poorer section, the number of children of school age in 1933 had increased by 23 per cent over the number 6 years before. In 7 school districts in the productive level river bottom lands there was no increase in the number of children of school age during the same period.

One phase of the research now nearing completion is a study of all of the land in two contiguous magisterial districts of Knox County comprising a total of 68,000 acres, making up the entire drainage basin of Stinking Creek, one of the important tributaries of Cumberland River. A land use map was made and showed by 10 acre blocks the use to which the land was being put—woodland, brush, corn, hay, pasture, etc. In classifying the land two blocks totaling about 5,000 acres of the most remote and roughest land having only a few families living on it were designated as Class I. That located principally in the basin of the three main forks of the creek and the upland area of the main fork was designated as Class II. The land along the lower section of the creek and the low lands of Cumberland River, consisting of a considerable proportion of good crop land, were designated as Class III. This relatively good land constituted less than one-seventh of the total land area of the entire drainage basin. Of the total area of the two magisterial districts, woodland and brush land occupied two-thirds, and pasture about one-fifth.

The level land suitable for crop production averaged only little more than 9 acres for each of the 176 sample families studied. Families on the upper reaches of the creek and its branches had level land averaging only 2½ acres per family. Total cash income available for spending averaged less than $40 per family. Seventy-two of the 176 families had less than $25 each for living expenses for the year.

The dwelling houses averaged only $70 in value and the number of persons per family averaged 5½. In most cases the dwellings were small log or box houses of one to three rooms, the box houses being constructed of a single layer of rough boards. A large proportion of the houses had no windows. Approximately one-fifth of the houses were classified as unfit for habitation. In 23 per cent of the households there were more than 3 persons per room and in more than half there were two or more persons per bed. Of 679 families in another mountain county, 102 families lived in houses of one room and 227 families in houses of 2 rooms.

Farm land in this section relative to population is as scarce as in Italy. Four years ago one man on a creek served by an almost impassable road, paid $400 an acre for two acres of bottom land. He had tried in vain to buy two adjoining level acres at the same price. I found this man and his three sons cultivating with a hoe the two-acre corn patch.

Cost data on some 200 farms showed that on the level land, a day's work produced an average of 3.3 bushels of corn. On land having a slope greater than 10 degrees (two-thirds of all the corn produced in this area

was grown on land ranging in slope from 11 to 40 degrees) the production of corn averaged only 1.2 bushels for a day's work. In contrast, corn grown in Christian County (a good agricultural county) on large, level fields and with modern tillage implements, gave a production of 15 bushels per day of man labor spent on the crop.

One factor which aggravates the shortage of arable land is that nearly a third of the land in the narrow valleys is too wet for use in the production of tilled crops. These wet lands, once very productive, have been made unproductive as a result of the creek beds becoming filled with debris and silt washed down from the cleared hill sides. The county agricultural agent of Knox County has demonstrated that the greater part of the draining of this wet land can be accomplished by clearing out the debris and thereby lowering the stream bottoms. This allows the surface water to run off the land, and lowers the water table. These bottom lands when the surplus water is removed produce 40 to 60 bushels of corn per acre. Treated with lime and a moderate application of fertilizer they frequently yield 80 to 90 bushels of corn. Such lands furnish the chief hope for the rehabitation of families on land in the area.

A study of the data of the various phases of research carried on in this typical region of the Appalachian area leads to the conclusion that the rough and remote land, such as that designated as Class I, might well be reserved at once as permanent forest land. Farming on land of Class II, consisting of the land in the upper reaches of the forks of the creeks which is as rough but not as remote as Class I land should eventually be abandoned, and the land reserved for permanent forest use. It should be noted that this land is now thickly populated. Land in Class III, consisting of areas more accessible and having a considerable proportion of good, level, arable land, should be used permanently for agricultural production. The use of the more intensive kinds of crops and the intensity of culture of all crops on this land should be increased. Families on the rougher, poorer lands, most of whom are now dependent upon public relief, should be encouraged and assisted to develop as completely as possible their meager land resources with the object in view of living temporarily where they are until opportunities for resettlement in industry or on suitable agricultural land become available. Pending that time some of the sloping land should be terraced and on farms where there is no level land the special preparation of garden plots of limited area by the construction of retaining walls would enable families to produce a considerable part of their food supplies and thereby lesson the calls on public relief. Eventually the area should be evacuated, but the best policy requires that the evacuation be done slowly and voluntarily. A period of a generation or more may be required for this evacuation.

Families which can get industrial employment outside the region should be encouraged to do so and industrial enterprises should be encouraged to locate at various points in the area. However, the outlook for getting such industries started is one of the most difficult and discouraging aspects of rehabilitation of these people. Only a very limited number of the families of the area possess the qualifications which wauld enable them to make a success as independent farmers in areas of high-priced farm land. Families possessing these qualifications should be given guidance and assistance. When possible, the relocation should be near the home locality but, in some

cases, it may serve the interests of the families if the removal is to better land farther away. To test the possibilities of such migration it may be advisable for a government agency to furnish aid by acquiring tracts of land to be subdivided, improved and sold to competent families on a long-time plan of repayment and low interest rates. In a great majority of cases families to be rehabilitated should be settled on small subsistence plats near possible opportunities for urban occupation. This plan is the easiest to execute and involves the smallest outlay per family.

The program of rehabilitating sub-marginal land families where they now are is predicated on the fact that, at present, industry or other non-farming work is not available elsewhere for anything like the number of families which need to be moved. Federal help in assisting families for the time being where they are should involve minimum outlays for permanent structures and should be confined to minor repairs to make the present houses habitable. The young people would be expected to leave the region and the area would be evacuated at the demise of the older people. The government might buy the land and might very well pay for it by the issue of life annuity certificates. These annuities would be available for the living of the operators who would be permitted to use the dwelling house and also the land, under conditions prescribed by the government. Only the level or the more gently sloping land would be allowed to be cultivated. Thus the elderly farm operators would have the use of the present houses which might be put in repair as a work relief project, the use of such land for inter-tilled crops as might be permitted by the government, and the use of such pasture land as might be permitted, and the fire wood necessary for fuel. At the death of the operator entire possession would be taken by the government.

Most of this area will ultimately go back into forest which is the use for which it is naturally adapted. The purchase and reforestation of such land by the government is justified since the project is invested with a distinct public interest. Reforestation will retard the run off of water and prevent the flooding of towns and cities on the lower reaches of the streams. It will prevent the washing off of soil into smaller and larger stream channels and filling them with silt thereby creating a flood menace. It will correct a maladjustment of population and serve as a means for rural slum clearance, changing the situation of the people of this large section of the United States from one of destitution and hopelessness to one wherein they may have a chance now denied them to attain better economic and social opportunities and a new outlook on life.

PART-TIME FARMING NEAR INDUSTRIAL AREAS[1]

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CORNELL UNIVERSITY

One of the most interesting developments in our rural population today is the movement of city people to rural homes. Many of these families obtain a part of their living from home gardens, one or two cows, and small poultry flocks, while others do considerable farming. These people we call part-time farmers for want of a better name.

The part-time farmer is by no means a product of the twentieth century. I think that we would be safe in saying that part-time farming is as old as civilization itself. We do know that history is replete with the examples of people who obtained a portion of their income from the farm and a portion from some other occupation.

Although the part-time farming movement has been in progress for some time, it became especially significant immediately following the World War. The greatest growth in the movement has taken place since 1930. In fact, more than a third of the families interviewed in the Cornell studies of part-time farming moved from the city to the country during the last three years.

Why has this movement gained such widespread popularity during recent years? Back in the days of the horse and buggy, the dirt road, and the long working hours in the factory it was practically impossible for the man who worked in the city to live in the country. The coming of the hard-surface road, the automobile and other cheap methods of transportation, the shorter working day, and the shorter work week in the factory, together with some tendency toward the decentralization of industry in some areas have all contributed to make this, what we often term the "new-back-to-the-land movement," a desirable one politically, socially and economically. Thousands of our people in the industrial states have found it economical, convenient and desirable to live in the country and drive back and forth to their jobs in the city.

Our interest in the part-time farming movement in New York State began when we started our intensive work in land utilization. We found that considerable areas near our industrial centers were devoted to country homes and part-time farms. Some facts on the situation were needed, and so we began our studies of this development in the summr of 1932. A total of 725 records were obtained in six different counties during 1932 and 1933. The Di-

[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 26, 1934.

vision of Subsistence Homesteads in cooperation with the CWA obtained about 2400 abbreviated records on part-time farms in six different counties during the early part of this year. All of the ensuing discussion will be based upon the findings of the Cornell studies conducted in 1932 and 1933 unless otherwise stated.

The farming operations of this group were limited. The average holding was about 12 acres in size. Less than $100 worth of livestock was kept per farm. The total farm receipts were under $100, and the food and fuel produced and consumed on the premises were worth $105. Most of the part-time farmers interviewed were obtaining practically all of their income from outside work. It was found that the head of the family got $751 a year from work off the farm, and other members of the family earned an additional $93 from this source.

The term "part-time farmer" as used in this report means a person who obtains a major portion of his income from some occupation other than farming. In some instances considerable farming was done. In others, the operator had only a small garden. About 15 per cent of the cases included in the Cornell study had neither crops nor livestock. These were included for comparative purposes.

Almost every time I discuss this very interesting group of people I have been asked the question: "How do these people like part-time farming?" I know that some of you are going to expect me to say that the group acquainted with the ways of agricultural life are reasonably well satisfied but for the city man unfamiliar with the country and its different mode of life,—another story. Contrary to your expectations concerning the city man, we have found that less than 7 per cent of this group were dissatisfied with the country way of life and wished to return to the city to live. The group who were born and raised in the country were even better satisfied with the part-time farming experiment.

And just why should these people be so enthusiastic about the country as a place in which to live? Does it not mean, inasmuch as most of these people are working in the city, that they must necessarily arise earlier in the morning in order to get to their city job on time? Does it not mean lack of modern conveniences in numerous cases? Does it not mean the lack of educational opportunities for their children? Does it not mean the lack of numerous valuable social contacts? In short, does it not mean a complete revolution in ways of living for the group accustomed to city life? I know of no better way to answer these questions than to tell you what these people have told me.

One question that this group was asked to answer was: "What are the chief advantages and disadvantages of country life?"

Almost 40 per cent gave as the chief advantage of living in the country the possibility of improving their financial position compared with what it would have been if they had stayed in the city. It was the opinion of these people that they could add to their earnings by their farming operations and at the same time live more cheaply than they could live in the city. Twenty-one per cent listed as the chief advantage of country life the fact that they loved the country and there was no other answer. Fourteen per cent listed as the chief advantage the improved health conditions of the country and 7 per cent said the most important advantage of country life was the fact that rural regions proved to be a better place to raise children.

And now, what about the disadvantages of living in the country compared with living in the city? Listen to what these people say. There were more than 43 per cent who said that for them there were no disadvantages of living in the country compared with living in the city. Approximately one-fourth listed the transportation problem as the most serious draw-back of living in the country. There were 16 per cent who listed lack of conveniences as the greatest disadvantage. Bad roads ranked first in about 3 per cent of the cases.

Disadvantages there are, but when these disadvantages were compared with the advantages, the great majority held that this new type of rural life was preferable to living in the city.

Is It Cheaper to Live in the Country?

The economic advantages of part-time farming were emphasized, as has been pointed out previously, by the families interviewed. What are the facts? A comparison of the costs of living in the country and in the city was made for a group of families who had moved from the city to the country during the last five years. This comparison showed after making adjustments for the decline in the general price level that the average family in this group was living for $170 less per year than it would now cost them to live in the city, assuming that they had the same standard of living in the city if they were living in the city now, that they had prior to moving to the country.

Before proceeding farther, let me illustrate what adjustments were made for declines in the general price level which had taken place during the period studied.

When products, such as vegetables, meat, eggs, and milk, were

produced for home consumption, it was assumed that the operator saved the difference between the price at the farm and the retail price of these commodities. The actual saving may have been greater or less than this, depending on the difference between the cost of producing these products and the farm price. Moreover, practically all of the labor used was unpaid family labor which, in the majority of cases, could not have been profitably employed in the city. The direct cash cost of producing products for home consumption was 28.2 per cent of the farm price. Direct cash cost includes all costs except a charge for the use of the land, a charge for unpaid family labor, and the value of the operator's time.

The difference between the prices paid for groceries, milk, butter, meat, vegetables, fruit, and other commodities purchased in the country and the retail prices of these commodities in the city was considered as a saving.

Operators were asked to estimate their annual outlay in the city for telephone service, electricity, water, transportation, doctor's services, insurance (fire), and other similar expenses. There has been relatively little change in the cost of these services during the past five years. Operators' estimates of the cost of these services in the city were compared, therefore, with the present costs in the country.

Economies resulting from living in a less valuable house, from actually doing without things, and from using cheaper fuel, clothes, etc. were considered as savings.

Seventy dollars of the $170 saved by living in the country was the result of a lower standard of living in the country—that is, they may have had electricity in the city and were burning oil lamps in the country; they may be doing without certain types of amusement; they may be dressing less expensively; or they may be living in houses which are somewhat less desirable. When the comparison was made on the basis of the same standards of living in the country and in the city, it was found that the families saved on the average $100 per year by moving from the city to the country.

The largest saving made by these families was in house rent or maintenance. The saving in this item averaged $126 per year. The next largest saving was made in food. Small savings were made in clothing and amusements.

It cost as much to have a telephone in the country as in the city. In making this comparison, however, it should be borne in mind that the average rural telephone is on an eight to fifteen party

line. Running water cost $5 more per year in the country and electricity $10 more.

It cost more per trip to have the doctor call in the country than it did in town but fewer trips were necessary because of the better health conditions of the country. Doctor bills averaged only $1 more per family in the country than in the city.

The average cost of getting to work was increased $31 per year by moving to the country.

The annual savings resulting from living in the country increased as:

1. Food and fuel furnished by the farm for home use increased.
2. Size of family increased.
3. Miles to work decreased.

In addition to the savings resulting from living in the country, there is also the opportunity for making money from part-time farming operations. The average net family income from farming operations on the 725 part-time farms studied was $93 per year. Some part-time farmers netted over $1,000 from the farm for the year studied.

Factors to Consider in Locating a Part-Time Farm

One of the purposes of the study of part-time farming was to determine the most desirable location of part-time farms. One of the most important considerations in selecting a suitable location for a part-time farm is the distance from the farm to outside employment. The average cost of transportation to and from work was 30 cents per day. The cost ranged from ten cents per day for those who traveled less than one mile to 88 cents per day for those who had to travel 13 or more miles per day. Those who were located at long distances from the city job found that excessive transportation costs offset the savings made in house rent or house maintenance cost.

The type of road on which the property is located is very important. It is highly desirable that it be located on, or very close, to a hard road. Electric lights and telephone lines are more likely to be found on hard roads. Income from boarders, roomers, and over-night guests is greater on paved highways. Such roads offer more opportunity for the sale of produce at the roadside. Paved roads are less likely to be impassable during periods of inclement weather. Homes on improved roads appreciated more in value than did others.

The value of the land for agricultural purposes has an important bearing on the desirability of the location of a part-time farm.

Electricity, telephone, and other facilities are being extended into the production areas. Some people buy land in poor agricultural areas because it is cheap. Our studies show this is inadvisable because these areas are very seldom provided with modern services; crop yields are low; farm incomes are unfavorable; and a process of gradual abandonment is in evidence. Real estate in these areas is declining in value.

Part-time farms located at excessive distances from the industrial centers were found to be unfavorably situated because of the distance to sources of outside employment, the high cost of modern conveniences, and the relative inaccessibility of favorable markets for the products raised on the farm.

Our studies indicate that the development of part-time farms should be confined largely to the following locations:

1. On or near to hard roads.
2. Within six to eight miles of the city with the greatest growth to take place within three to four miles of the city limits.
3. On good agricultural soils if any gardening or crop farming is contemplated.

It is gratifying to note that most of the development of part-time farming in New York State has been in favorable locations. The greatest growth has taken place on or near hard-surface roads and relatively close to population centers. Some indication of this tendency to locate near cities is shown by the fact that approximately 50 per cent of the rural non-farming population outside of incorporated places is to be found in the metropolitan areas and in the towns immediately contiguous to cities with a population of more than 30,000. Most part-time farms are within five miles of the center of population, and 95 per cent of those studied were within eleven miles.

Attitude of Full-Time Farmers Toward Part-Time Farmers

The part-time farming movement has taken place so rapidly that many communities which were distinctly rural a decade ago are now prevailingly rural residential. Scarcely a rural community in the industrial East has escaped the influx of this new back-to-the-land movement.

How does the full-time farmer in the community feel toward this new neighbor, the part-time farmer? No definite answers to this question were obtained in the Cornell study but an attempt was made to learn something of the most prevalent attitude of farmers toward part-time farming in the subsistence homestead study.

Each of the 29 enumerators on the Federal CWA Subsistence Homesteads Census was asked to fill out a community schedule for each community surveyed. One of the questions on this schedule was: How do full-time farmers commonly feel toward part-time farmers, and for what reasons? Each of the enumerators visited a number of full-time farmers in order to report on this question. The answers to these questions plus the general observations of the enumerators on the Cornell study has furnished the basis for most of the discussion which is to follow.

Most full-time farmers are in favor of the part-time farming movement as long as it is confined to small farms producing largely for home use and as long as the people are financially able to take care of themselves without appealing to the welfare agencies for support.

There was a very strong feeling in some communities against the financially destitute flocking from the cities to the rural areas in a futile attempt to eke a living from two or three acres of barren soil. Most of these people were "on the town" in a very few months after they settled in the community.

The movement of this type of part-time farmer from the city to the country was accentuated by the severe economic depression and as economic conditions become more favorable there is less likelihood that this class of people will be of much importance in the part-time farming movement in the future.

Some communities reacted unfavorably to the part-time farming movement because many foreign-born families were moving into the neighborhood. Very few communities had to face this situation, however.

Extent of Farming Operations on Part-Time Farms

One of the most frequent criticisms farmers make of the part-time farmers is that they are detrimental to the local markets for farm produce. The vegetable growers and the producers of small fruits were especially bitter against the part-time farmers as a group because most of the produce grown for sale by the part-time farmers was either vegetables or small fruits. Numerous part-time farmers produce some eggs for sale. There was also some complaint because the part-time farmer is producing for home consumption. It is argued that the production of food stuffs by the part-time farmers is decreasing by that amount the outlet for the sale of produce by the full-time farmer.

The Cornell studies showed that the average part-time farmer was producing only $80 worth of produce for sale per year. In fact

there were more than a half of the part-time farmers interviewed who produced nothing for sale during the year in which the study was made. Less than one-fourth of the annual food needs of the family were produced on the farm. The part-time farmer in many cases offered a retail market to the full-time farmer for his milk, butter, eggs, fruit, vegetables, and other farm produce.

Availability of Modern Conveniences

Many farming communities are too sparsely settled to afford electricity, telephone service, running water, and other modern conveniences. The coming of the part-time farmer has increased the population of many rural communities and has made it economically feasible to install electric lines, telephone service, and city water lines. The usual minimum electric charge is $24 per mile per month. If this $24 charge must be shared by 3 farmers, the minimum charge for electricity is $8 per month for each customer. If 3 part-time farmers located on this mile of road, the minimum cost per dwelling is reduced to $4.

Broader Tax Base

The movement of part-time farmers into the rural communities has helped to divide the tax burden among more people. Taxes in some cases have been lowered but in most cases there has been a tendency for the taxes to remain at their old levels or increase somewhat in amount. The increase in tax receipts was usually spent for more and better schools, improved roads, and more efficient governmental service.

Market for Real Estate

The part-time farming movement has created a brisk demand for well-located properties within commuting distance of the industrial centers. Frontage acres along the hard-surfaced roads have been selling at a premium. Extra houses on farm properties now have a sale value whereas a decade ago there was no market for such properties. Many full-time farmers have mentioned this feature of the part-time farming movement as one of the most important single advantages accruing to the individual farmer as a result of this marked movement of the city workers to small homes in the country.

Membership in Community Organizations

Another reason why the average farmer looks with favor upon this new type of country resident called the part-time farmer is

the fact that the part-time farmer and his family are helping to support the numerous organizations in the rural community. The Subsistence Homesteads Study showed that almost three-fourths of the memberships held by the operators of the part-time farms surveyed were country organizations. There were 72 per cent of operators church memberships which were held with the community church while only 28 per cent of the operators who held church membership belonged to city churches. Two-thirds of the lodge memberships and three-fourths of the memberships in miscellaneous organizations were local. Five per cent of the part-time farmers belonged to the Grange and one per cent were Farm Bureau members.

Most part-time farmers realize that the part-time farming movement is a permanent one and that they as farmers should cooperate to make the movement as satisfactory from the farmer's standpoint as possible. To most farmers, the part-time farmer is a new neighbor who is helping him to pay his taxes and to support his schools, churches, lodges, Granges, Farm and Home Bureau work, and other activities in the community. This new neighbor, furthermore, has assisted in getting electricity, telephones, running water, and hard-surface roads in the community. Add to all these contributions the fact that the market for real estate in the country has been enhanced by the settlement of the part-time farmers in the community, and it can be easily seen why most farmers are enthusiastic about the movement.

Part-time farming, associated with the trend of shorter working hours, improved transportation facilities, the increase in hard-surface roads, and the decentralization of industry, need not necessarily conflict or compete with full-time farming. With a wage level accompanying regular employment sufficient to provide an adequate income, part-time farmers will produce less of their own food and purchase more from commercial farmers. But during periods of unemployment and reduced incomes, families should have immediate resource to the land and be in a position to obtain the major food requirements which they no longer are able to purchase from the commercial, or full-time, farmers.

MEASURES FOR THE RELIEF AND REHABILITATION OF AGRICULTURE IN CANADA[1]

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During the past few years many measures have been adopted by the Parliament of Canada and the legislatures of the nine provinces for the relief and rehabilitation of agriculture. Some of these are intended to meet emergency conditions and to relieve distress. Others have as their objective the ultimate restoration of agriculture to the position it formerly occupied in relation to other industries and occupations.

Among the measures suggested by the title of this paper are some that owe their existence to a succession of crop failures in the prairie section of Western Canada. Large sums have been spent in this area on relief projects but it is impossible at this time to present a comprehensive statement on the matter. Discussion will, therefore, be limited to a review of the efforts put forth to meet emergencies and to correct inequalities caused by unfavorable economic conditions.

Similarity of Economic Conditions

For the information of those unfamiliar with developments in Canada during recent years it may be stated that the effects of the depression have not been unlike those experienced in the United States. Canada, fortunately, escaped the chaotic conditions attendant upon the collapse of banking in the United States, but in most other respects has experienced similar conditions. Indexes of wholesale prices and of business activity in general over the past five years reveal a similarity of trend in the two countries. Canadian farmers have, however, been at a slight disadvantage in the matter of prices. This, in large measure, is due to the curtailment of international trade in farm products which is of rather more significance to Canada than to the United States.

Provincial Measures

Before proceeding to a review of measures adopted by the Dominion Parliament for the relief and rehabilitation of Canadian agriculture a brief review of the undertakings of most of the provincial legislatures will be given. In this connection an inter-

[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 27, 1934.

esting difference is revealed by a comparison of the agricultural legislation passed in Saskatchewan with that of Ontario. This is typical of the difference between the East and the prairie section of the West. The Department of Agriculture for Saskatchewan supplied a list of 28 acts passed since 1929 for the "assistance and rehabilitation" of agriculture.[2] Significant among these are the acts to provide for debt adjustment and for the postponement of the issue of certificate of title to land sold for taxes. Land settlement, including assistance in moving farmers from drought areas to other parts of the province is provided for by legislation. Relief acts of various descriptions are included in the list. In addition legislation to deal with marketing, including an act providing for regulation of the production and sale of milk by the Local Government Board is referred to.

In Ontario, on the other hand where climatic conditions have been more favorable, relief measures of the type so evident in Saskatchewan are conspicuous by their absence.[3] Legislative contributions to agricultural development have taken a different form. Significant among the enactments in Ontario are those dealing with the extension of credit, the establishment of a provincial marketing board, the control of milk marketing, the grading and sale of fruits and vegetables and the marketing of live stock. At the last session of the provincial legislature an act which makes possible the operation in Ontario of local boards established under the Natural Products Marketing Act was passed.

The program followed in the other prairie provinces has of necessity been similar in many respects to that adopted in Saskatchewan because of common problems, and within limitations, a cooperative approach to their solution. In both Alberta and Manitoba the question of relief resulting from unfavorable natural conditions has occupied the attention of the people and the time of legislators. This similarity of interest and common approach to a solution is well exemplified in the development of debt adjustment legislation which will be referred to later.

An interesting effort at rehabilitation in Western Canada that is worthy of special mention is that initiated in Alberta for the reconstruction of agriculture in certain areas where climatic and economic conditions combined have forced the abandonment of large acreages. Acting on the recommendations of a special commission the Legislature of Alberta passed an act appointing a

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[2] Information supplied by F. H. Auld, Deputy Minister of Agriculture, Regina, Sask., based upon a report prepared by B. N. Arnason of the same Department.

[3] From a compilation of "Acts and Parts of Acts in the Statutes of Ontario Relating to Agriculture." F. C. Hart, Ontario Agricultural College, Guelph, Ontario.

board to administer the lands within certain prescribed boundaries. The Board, in addition to determining land policies, has certain authority in connection with matters previously dealt with by municipalities and school districts. The fundamental purpose of the program is to develop the area on such a basis that those still operating farms and ranches may be enabled to continue on a more satisfactory basis. Fundamentally it is a case of correcting a mistaken settlement policy which climatic and economic conditions have made more difficult.

In British Columbia enactments dealing with drainage, dyking and development are conspicuous in a survey of legislation. Measures designed to improve marketing and to deal with relief in several forms have been adopted. British Columbia, it might be mentioned, is the "home" of regulated marketing as far as Canada is concerned for it was in this province in 1926-27 that the Produce Marketing Act, later declared by the Courts to be ultra vires of the provincial legislature, was passed to place the marketing of certain products under the authority of "committees of direction."

The legislative enactments of the Maritime Provinces of New Brunswick, Nova Scotia, and Prince Edward Island for the relief and rehabilitation of agriculture in the main have been concerned with marketing. These provinces are peculiarly situated geographically with respect to the large consuming areas of Canada. A considerable part of their agricultural output as well as the production of forest products and fisheries, has of necessity found an outlet in the United States, the United Kingdom and Europe generally, the West Indies, Bermuda and South American countries. Measures to improve markets, both in the domestic and export trade have therefore been given most attention by authoritative bodies. Nevertheless a review of the measures adopted in recent years indicates that here too the problem of relief and reconstruction has been of significance. Legislation providing for seed distribution, agricultural credit and land settlement appear in the statutes.

National Measures

From this very inadequate survey of activities in the provinces we turn to a consideration of measures adopted by the Parliament of Canada. For convenience, however, certain provincial activities will be referred to in discussion of national measures.

Assistance to Wheat Producers. Roughly one-third of the 728,000 farmers of Canada derive the major part of their income from the sale of wheat. Therefore, anything that affects this prod-

uct has an important bearing upon Canadian agriculture. With the rapid decline in the price of wheat in 1930 and 1931 the governments of Manitoba, Saskatchewan and Alberta were obliged to come to the assistance of the wheat pools which were marketing about one-half the Canadian crop.

The pools had made advances to farmers on grain held for later sale which aggregated a considerable sum. Funds for the making of such advances had been loaned by the banks. Governmental assistance to prevent forced liquidation of stocks to meet such loans was sought and given. The provincial governments already referred to guaranteed bank loans to the extent of about $23,000,000. When conditions became more serious the Dominion Government also responded to the appeal of the Western farmer. Bank credit for the conduct of operations, including advances to growers, was guaranteed. Since late 1930 the operations of the Canadian Cooperative Wheat Producers, in liquidating accumulated stocks have been conducted with the backing of the Dominion Government. In the exercise of this function the sales agency has had an eye to the stability of prices.

Special Payment to Wheat Producers. Recognizing that an emergency existed and that it was in the national interest to assist wheat producers of Western Canada, Parliament passed an act in 1931 providing for the payment of five cents per bushel for every bushel of wheat grown in the Provinces of Alberta, Saskatchewan and Manitoba in the year 1931 and delivered to marketing agencies. This act expired on the 31st day of July, 1932, and the total amount paid to date on this account is $12,719,900.73.

Currency Valuations. Important among the factors affecting the returns to Canadian farmers is the relationship of the Canadian dollar to the currencies of those countries that buy Canadian products. When Great Britain abandoned the gold standard in September, 1931, the pound sterling depreciated in terms of the United States and Canadian dollars to a figure that made exporting from this continent difficult. Among Canadian farmers, in 1932, there was considerable sentiment favorable to the depreciation of Canadian currency to parity with the pound but Canada's heavy commitments to the United States on capital account were a deterrant to such action. For a considerable period, however, market factors effected a compromise—the Canadian dollar sought a level about midway between the pound sterling and the United States dollar. Canadian farmers during this period, though less fortunate than their cousins and competitors in Australia and New Zealand, nevertheless experienced an advantage

over producers of farm products in the United States as far as export transactions were concerned.

When the United States abandoned the existing gold standard a further depreciation in the Canadian dollar took place although the percentage decline was not as great as in the United States. In recent months the Canadian dollar has been about at par with the pound and at a slight premium over United States currency. This improvement in the relationship with sterling has been of very considerable value to Canadian farmers. The part played by governmental policy in this respect is impossible of appraisal at the moment but it is a safe conclusion that such policy has had a bearing on the result.

Agricultural Stabilization Fund. The budget introduced early in 1933 contained a provision for an agricultural stabilization fund. From this fund amounts equal to the difference between the price actually received and the pound sterling valued at $4.60 were to be paid to persons exporting certain agricultural products and fish to the United Kingdom. Only limited use was made of the fund due to the appreciation of the pound in terms of Canadian currency.

Reduction of Interest Rates. Another accomplishment of direct or indirect benefit to agriculture for which the government may take some credit is that contributing to the reduction of interest rates. Early in 1933 the banks and trust companies, with the approval and cooperation of the Department of Finance, reduced interest rates on deposits from 3 to 2½ per cent. A further reduction to 2 per cent was made in November of this year. Interest rates on money borrowed and on debts outstanding have likewise been reduced in many instances. Lower interest on bank deposits has undoubtedly stimulated investment with the result that industry, including agriculture, has benefited in some measure.

Central Bank Established. While on the subject of currency, interest rates, and banking, mention should be made of the fact that at the last session of parliament an act was passed providing for the establishment of a central bank. The Bank of Canada, as the new institution will be called, in addition to taking over much of the work formerly carried on by the Department of Finance will function much as do central banks in other countries. The effect of the policies of such an institution upon agriculture is difficult of appraisal but to the extent that its operations have the effect of stabilizing prices and to the extent that it gives increased recognition to the peculiar problem of agriculture, its operations should be beneficial to farmers.

Debt Adjustment

The national measures dealt with thus far, other than that establishing a central bank, are of an emergency character. A number of other measures, such for example as one to reduce the obligations of soldiers settlers who acquired farms with government assistance following the World War, might be described if time permitted.

Among the measures that may be considered as intended to "rehabilitate" Canadian agriculture, and which will now be referred to, are those dealing with (1) debt adjustment, (2) extension of credit, (3) agricultural marketing.

Mortgage and Short Term Indebtedness. The mortgage indebtedness on Canadian farms according to the 1931 census was $726,026,500. The volume of short term indebtedness is estimated to be in excess of $200,000,000. It is probable that the total amount owed is around one billion dollars. The major portion of this amount was contracted during a period of materially higher prices than those now prevailing and cannot, in many instances at least, be repaid at current prices. A long time policy for agriculture must lead to a reduction of debts or an improvement in prices, or both. As there was little disposition to reduce debts during the early years of the depression, everyone believing that "normal" conditions would soon return, pressure on debtors became acute. A similar though less acute situation was experienced in Canada between 1920 and 1923. In Saskatchewan where the problem was made more serious by several years of drought in the southern portion of the province, an act to encourage voluntary adjustment of debts under the supervision of a Debt Adjustment Commissioner was passed.

Since 1930 legislation of this type has become more general in Canada; powers have been extended in certain provinces to provide that creditors cannot take action against debtors without a certificate from the proper authority.

There has, of course, been some criticism of such legislation, which in effect gives farmers a moratorium against creditors. It has been urged that such action impairs the credit of the farmer and reflects on the province that enacts it. While undoubtedly there is justification for criticism by creditors, thousands of farmers who through no fault of their own find themselves temporarily unable to meet their obligations, have had reason to be grateful for the enactment of such measures.

Farmers' Creditors Arrangement Act

Moratory legislation, however valuable, will not not remedy the situation if the conditions that make such legislation necessary continue for a considerable time. After five years of serious maladjustment it appeared that in the interest of both debtor and creditor, machinery should be provided that would make the re-arrangement of obligations a necessity under stated conditions and clear the way for resumption of normal lending operations. Accordingly at the 1934 session of the Parliament of Canada, an act known as "The Farmers' Creditors Arrangement Act" was passed with the support of all parties.

This measure recognizes that there are "two types of farmers in difficulty—the man who is so hopelessly involved that only through the Bankruptcy Court could he get relief and a fresh start, and the other man technically insovent, with sufficient assets but in default and in the position where re-arrangement of his debt was necessary."[4]

The act provides for the appointment of "official receivers" in each judicial district or county whose duty it will be to accept proposals from either debtor or creditor for a composition, extension of time or re-arrangement of a farmer's indebtedness, or for assignments in bankruptcy. The act also provides that a Board of Review may be appointed in each province to consist of a chief commissioner who will be a judge of the Superior Court of the province and one commissioner representing debtors and one representing creditors.

Procedure Under the Act. A farmer unable to meet his liabilities may file with the official receiver for his district a proposal for the composition, extension of time or re-arrangement of his indebtedness. It is then the duty of the official receiver to convene a meeting of the farmer's creditors to consider the proposal. In the meantime a stay of proceedings is in effect. If the proposal is approved by the creditors it is then submitted to the court for confirmation. In the event no proposal made is agreed to by all parties, either the farmer or one of his creditors may request that the matter be referred to the Provincial Board of Review who will endeavor to formulate a proposal acceptable to all parties concerned. If further disagreement ensues the Board may formulate a proposal in which case it shall be approved by the Court. In such a case the Board is to base its proposal upon the present and prospective capability of the debtor to perform the

[4] M. A. MacPherson, K.C. An address before the Canadian Club, Toronto, Nov. 5, 1934, on the subject "The Farmer and His Debt."

obligations prescribed and the productive value of the farm. The proposal then becomes binding upon both debtor and creditors.

Once a proposal has been approved and confirmed by the Court, failure on the part of the farmer to carry out the terms of the proposal constitutes an act of bankruptcy, unless in the opinion of the court to whom the application for a receiver is made such failure to carry out the terms of the proposal was due to causes beyond the farmer's control.

With respect to procedure under the bankruptcy provisions of the act the principal advantages are that whereas assignment was previously difficult and expensive, frequently costing several hundred dollars, the procedure is now comparatively simple and inexpensive. The official receiver who is a paid official of the Dominion Government, and the district or county court judge are empowered to handle assignments.

The act also contains another interesting provision which is to the effect that whenever the rate of interest on a farm mortgage exceeds 7 per cent the mortgagor may tender the amount due together with three months further interest in lieu of notice, and thereafter if payment is not accepted interest shall not be chargeable or recoverable at any rate in excess of 5 per cent per annum.

Act in Operation. The act was proclaimed in the Prairie Provinces September 1 last and came into operation about October 1. Other provinces have since been included by proclamation. Official receivers are now functioning in 130 judicial districts covering all Canada. Boards of Review have been appointed in each province. Up to December 15 approximately 12,000 farmers have been interviewed by official receivers and about 4,000 proposals considered. Settlements have already been effected in a fair proportion of cases.

The act has hardly been in operation long enough to enable one to appraise its effect but on the basis of the cases so far settled it appears that reduction of interest is one of the results most frequently achieved. Reductions in principal, extension of time of payment and consolidation of accounts are other results obtained in many cases.

Judgment on the ultimate success of this measure would be premature at this time but from information forthcoming from various parts of the country, from creditors as well as debtors, it would appear that a very fine start has been made toward the solution of a very pressing problem. And perhaps the best thing about this program is the fact that it will bring about many adjustments that official receivers will have no knowledge of. Indeed

there is already an indication that the number of such adjustments will greatly exceed those handled by official agencies.

Farm Loan Act

In 1927 the Parliament of Canada enacted legislation establishing a Canadian Farm Loan Board and empowering it to advance against the sale of bonds a maximum of $15,000,000. The Board began operations in 1929 and now operates in six of the nine provinces. It has advanced about $9,000,000 to date on first mortgage loans repayable on the amortization plan over periods of 23 and 32 years.

During the 1934 session of Parliament the functions of the Farm Loan Board were greatly extended by the passage of an act amending the original charter. The Dominion Government may now hold $40,000,000 of Farm Loan Bonds and may guarantee principal and interest on an additional $30,000,000 of bonds sold.

In cases where a first mortgage loan is made on a farm the Board can now make a further advance for a period of not more than six years repayable on such terms as it may determine, the security being a second mortgage on the real estate and a charge on live stock and other personal property. The maximum amount loaned to any one borrower on both accounts shall not exceed $7,500. The purpose of the supplementary loan is to enable the borrower to pay existing liabilities, purchase live stock and equipment, erect buildings or make other permanent improvements to the property. The current rate of interest on first mortgage loans is 5½ per cent and that on the second mortgage 6½ per cent. Previously first mortgage loans carried 6½ per cent interest.

A further interesting provision of the 1934 amendment makes available an amount to provide working capital for the operation of a farm where a composition of indebtedness under the Farmers' Creditors Arrangement Act has been effected. In such cases the Board is empowered to lend to the mortgagee, on the security of the mortgage assigned or hypothecated to the Board, an amount equal to one quarter of the principal amount owing on the mortgage on condition that the amount so advanced shall be disbursed to the mortgagor for the proper operation of the farm. Such loans shall be for a maximum of one year, subject to an extension of an additional year, and may be interpreted as an effort to assist both the farm operator and mortgage holder, where neither is in a position to furnish necessary operating capital.

Marketing Legislation

The Government sponsored, and Parliament passed, during the 1934 session what many consider the most important legislation enacted in recent years and certainly the most controversial inasmuch as it resulted in protracted political debate in the House and much discussion at the crossroads.

This measure is known as The Natural Products Marketing Act. It has been variously referred to as Canada's N.R.A. and as a duplication of the British Marketing Act. However, it is neither although containing certain features resembling the British act which in turn resembles legislation introduced earlier in Australia. It can hardly be said to resemble the 1933 legislation of the United States although the control provided is in some respects comparable with that made possible under the AAA marketing agreements.

The Canadian act is a distinctive measure. Its primary purpose is to provide machinery through which those interested may *regulate* the marketing of natural products. It does not aim at production control, although regulation of marketing may in some instances lead indirectly to such results. Neither does it provide for the fixing of prices. The natural products that may be dealt with include all of the principal products of the farm, together with lumber and fish. Secondary products classified as food or drink derived from natural products may also be subjected to regulation. The machinery of administration consists of a Board of five known as the Dominion Marketing Board operating under the authority of the Minister of Agriculture. The powers conferred by the act are embodied in the Dominion Board but may be delegated to "local boards."

Local Boards. The fundamental purpose of the act is to give to producers or persons engaged in marketing, or to the two groups acting cooperatively, the authority to establish a local board to regulate their own business. Regulation is to be achieved by controlling the movement of the product as to time and place of marketing, quantity, quality and grade of product that may be marketed and condition and agency under and through which operations may be conducted. With this authority a board can prevent the movement of a product that is not ready for marketing, as for example, immature fruit. It can eliminate low grade products, prevent market gluts and improve methods of distribution.

The instrument for the establishment of a local board is referred to as a "scheme." The scheme must be a product of the

industry. Provision is made for the taking of a poll to obtain the views of persons affected. The percentage that must favour a scheme for the creation of a local board is determined by the Minister of Agriculture but it is taken for granted that substantial support must obtain in all cases before authority is granted. Once approval has been obtained and the machinery is in operation all of the regulated product produced and marketed within the area of the sheme is subject to regulation. Authority to register and license may be granted local boards with a view to obtaining information and to the enforcement of orders, rules, and regulations.

Financing. The financing of local boards operations is a charge upon the product and industry concerned. The act, however, provides that money may be made available from public funds to assist with organization of local boards but the Dominion Marketing Board, in order to prevent unnecessary and unwise promotional activities, has limited the use of such funds to cases where a scheme has been approved.

Several other important features are found in the act. One of these permits the Dominion Marketing Board, under what may be considered as emergency conditions, to formulate a scheme and to administer it directly or through an agency of its selection. Another provision permits the governor in council to regulate or restrict the importation into Canada of a natural product that competes in Canada with a regulated product and also to regulate or restrict the exportation from Canada of any natural product. These, too, may be considered as emergency provisions designed to give necessary authority to deal with import restrictions, quotas, export bonuses, and similar measures in effect in other countries affecting Canadian trade.

The act also contains a second part which gives to the Minister of Agriculture the authority to investigate the "spread" prevailing in the marketing of any natural product. Every person, who to the detriment or against the interest of the public, charges, receives, or attempts to receive any spread which is excessive or results in undue enhancement of prices or otherwise restrains or injures trade or commerce shall be guilty of an indictable offence and subject to fine or imprisonment.

The Dominion Marketing Board was appointed in the early fall and at once began to function. Up to the present five marketing schemes have been approved and are in operation. One of these regulates the marketing of apples produced in British Columbia. Another controls the export of apples and pears. A

third deals with flue-cured tobacco produced in Ontario. The fourth permits regulation of the salt herring and salt salmon industries in British Columbia and the fifth controls the export of red cedar shingles from the same province.

In addition to these schemes, which are in operation, ten other proposals have been received by the Dominion Board. These deal with a most interesting variety of products ranging from the manufacture of jams to the retail distribution of lumber.

One of the noticeable and perhaps most gratifying results so far evident in this development is the disposition on the part of those interested in the marketing and processing of natural products to invoke the provisions of the act. It can fairly be said that in many instances the plight of producers has caused much concern among those engaged in marketing the product. In a number of instances producers and the trade have come forward with a proposal involving regulation under a joint board.

It is, of course, much too early to appraise the results of such a marketing program. Much depends upon future developments. Producers and others are very hopeful—some appear to believe that all of our marketing problems will be solved as soon as we have enough local boards in operation. Many of these point to the success so far achieved by several boards in regulating the disposition of the major part of this year's crop.

The members of the Dominion Board, however, appreciate that the marketing problem cannot be solved as easily as some anticipate. They realize that there are difficulties ahead that challenge solution. Not the least of these will be the problem of dealing with two groups of extremists—the one desirous of revolutionizing marketing and the other satisfied to continue as we are. In its approach to the solution of the problems thus far confronted the Board has indicated that it intends to follow a middle course.

Summary

The foregoing brief review of provincial and federal measures for the relief and rehabilitation of agriculture in recent years suggests that activities may be grouped roughly into two broad classes. The first would include the measures enacted during the years of declining prices between 1930 and 1933 to meet emergency conditions. The measures included in the second group would appear to indicate the passage of the emergency period and the coming of the time for reconstruction.

In the first group would be placed the provincial legislation encouraging debt adjustment, while in the second there would

appear the Farmers' Creditors Arrangement Act making adjustment mandatory under stated conditions. The first would also include the legislation guaranteeing bank loans and otherwise providing credit to meet demoralized marketing conditions. In the second would be found the Natural Products Marketing Act suggesting that some of the problems faced by distracted farmers and persons engaged in marketing are more permanent in nature and can best be remedied by regulation at the hands of those concerned, supported by the necessary legislative authority.

THE PROGRAM OF RURAL REHABILITATION OF THE FERA[1]

LAWRENCE WESTBROOK
FEDERAL EMERGENCY RELIEF ADMINISTRATION

A rural rehabilitation program, based upon the principle of helping destitute families to help themselves, was initiated as an exploratory measure in the spring of 1934. It was recognized that the extension of relief in rural areas presented an entirely different problem from the extension of relief in urban areas, and also that there existed in rural areas opportunities for rehabilitation which could be taken advantage of at relatively small cost.

An analysis of our rural case load indicated that there were many thousands of destitute farmers receiving relief at a cost to the Government of from $10 to $30 per month who could be made self-sustaining by an investment in equipment and supplies which would not exceed the cost of extending relief over a period of several months. Obviously, it was more desirable to furnish these farmers with such equipment and supplies than to continue to give them relief indefinitely.

In view of these facts the Federal Emergency Relief Administration adopted the policy in rural areas of providing eligible persons with facilities to enable them to make a living to the extent that the investment by the Federal Emergency Relief Administration in such facilities would not exceed the total cost of the direct or work relief over such period of time as might be estimated that such direct or work relief would have to be extended. This policy, which is being gradually put into effect, also involves the obligation on the part of the beneficiary to repay the amount advanced, either through the sale of products produced by the beneficiary or through work performed on projects selected by the ERA.

This typical example will probably furnish the best explanation of the working out of this policy. The John Doe family, consisting of husband, wife and three children, two of whom were old enough to do light farm work, had been receiving relief for six months. They were entirely destitute and were living in an abandoned farm house in a southern state. John Doe had been a share cropper with a fairly good record, and had been forced to move on account of foreclosure on the farm where he had been working. He owed a total of $500 to merchants, doctors, and others in his

[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 27, 1934.

community. His budgetary allowance covering food and a few other absolute necessities had been set by the County Relief Administration at $15 per month.

Under the rural rehabilitation program a land owner was found with a tenant house badly needing repair. An agreement was made with the land owner whereby the relief administration spent a total of $75 for materials and $75 for labor repairing the land owner's tenant house and in return the land owner gave the relief administration a lease on the tenant house and ten acres of land for three years and further agreed to rent to the relief administration an additional 15 acres to be worked on shares by John Doe and his family. The labor repairing the tenant house was furnished by John Doe himself and two other work relief clients of the relief administration.

The relief administration purchased a cow, some chickens, a couple of shoats and a small amount of equipment for John Doe and took his note secured by these chattels and by any crops produced by him. The lien was made to cover the total investment in repairing the tenant house, less the value of John Doe's own labor, the cost of the livestock and equipment, and any subsequent advances for subsistence, or for other purposes. The total investment by the relief administration, excluding subsistence, amounted to $250.00. It was necessary to furnish subsistence to John Doe and his family at the rate of $10 per month for six months, at the end of which time he had made a crop, and owed the relief administration a total of $310 plus interest at 5%.

On the 10 acres of land which went with the house, John Doe produced feed for his cow, chickens and pigs sufficient to last for the entire year. He also produced 1,000 cans of assorted garden produce, 200 cans of which he turned in for toll at the local cannery and 200 cans of which he exchanged with the relief administration for coffee, flour and sugar. The remaining 600 cans he kept for the use of himself and family during the remainder of the year. In addition, the relief administration gave him a job repairing another house to be occupied by another destitute farmer at which he earned $25 in cash.

On the 15 acres rented on shares from the land owner, 5 bales of cotton were produced, and John Doe's part of the proceeds from this cotton amounted to $150. He paid the relief administration $7.80 interest, the $60.00 advanced for subsistence, and $50 on his obligation for rent and equipment. This left him owing the relief administration $200, and against that he had

$57 in cash, $100 worth of livestock and poultry, $100 worth of food supplies and $75 worth of livestock feed. He had made a living for himself and family for six months and had a total gain in assets over liabilities of more than $100 since the beginning of his rehabilitation. Of immeasurably more importance, however, is the fact that John Doe has ceased to be a ward of the state, and is by way of becoming a self-respecting, self-supporting, tax-paying citizen.

The assumptions based upon this hypothetical case have been more than justified by the actual working out of the program. Many rehabilitants have completely discharged their obligations, and it will not again be necessary to render them assistance. Of course, there have been many variations in the type of rehabilitation afforded, and the results up to this time are likewise varied. The experiences gained, however, have demonstrated beyond question of doubt that the principle of helping people to help themselves is sound not only in theory, but in practice.

Launching the Program

In inaugurating the program of rural rehabilitation it was recognized that vastly different conditions prevailed in various sections of the country. A plan of rehabilitation for a share cropper in the cotton belt would not at all fit a tenant farmer in the grain belt or a farm laborer in the corn-hog belt. It was also recognized that, because the program was new and because there were no precedents to go by, it would be inadvisable to attempt to set up detailed rules and regulations in advance of some actual experience. Accordingly, a series of regional meetings was held in various sections of the country which were attended by relief officials and representatives of the various Extension Services and state colleges of agriculture. At these meetings relief problems in the rural areas were freely discussed and proposed remedial measures applicable to the regions concerned were broadly outlined.

On March 21 the Federal Emergency Relief Administrator formally announced the beginning of the program as of April 1st, with the statement that the objective was to make it possible for destitute persons eligible for relief in rural areas to sustain themselves through their own efforts. In the same statement he pointed out that state emergency relief administrations would be permitted wide discretion as to methods to be employed in the carrying out of the program within the limits of available funds and to the

extent that it could be shown that these methods would lead to the eventual rehabilitation of the relief cases to which they were applied.

State emergency relief administrations were instructed to plan programs for their respective states, and to submit these programs together with applications for funds to the Federal Emergency Relief Administration for approval.

Organization

Concurrently with the inauguration of the program in the various states there was set up in Washington a Rural Rehabilitation Division of the Federal Emergency Relief Administration. The function of this division was described as being to initiate, develop, pass upon and generally supervise plans of rural rehabilitation to be carried out in the various states. Immediate contact was made with the Department of Agriculture and with the Farm Credit Administration, and from the beginning of the program the closest possible cooperation has been maintained with these departments. Not only has there been this close cooperation, but the personnel comprising the staff of the Rural Rehabilitation Division of the Federal Emergency Relief Administration has been largely drawn from various divisions and bureaus of the Department of Agriculture. In addition to this, the Agricultural Adjustment Administration at the suggestion of Mr. Hopkins, set up on its own account an agricultural rehabilitation staff charged with the specific duty of coordinating rural rehabilitation activities as carried on by the Federal Emergency Relief Administration with the general program of the Department of Agriculture throughout the country. This close coordination and cooperation have prevented conflicts between the federal agencies concerned in the field, and have made possible the rendering by the federal government of a completely rounded out service to the rural sections of the country as a whole. Plans, policies and procedures of all the various agencies have been given joint consideration before being put into effect.

In setting up organizations to carry out their rural rehabilitation programs the various states found it necessary to set up rural rehabilitation divisions charged with the duty of planning and coordination, and generally functioning within the states in the same manner that the national rural rehabilitation division functions nationally. Because state relief administrations, as such, could not function as business entities, it was found necessary to set up a rural rehabilitation corporation in each state to

act as the financial agency of the state emergency relief administration in carrying out the rural rehabilitation program. The boards of directors of these corporations generally consist of the regional field representative of the Federal Emergency Relief Administration, the State Administrator of Relief, the Director of the Extension Service of the state concerned, the regional field representative of the land policy section of the agricultural adjustment administration and three outstanding citizens of the state, selected by this group and approved by the Federal Emergency Relief Administrator. Final control of the corporations is delegated to the Federal Emergency Relief Administrator through deposit with him of all of the capital stock of the corporations.

The board of directors of the Rural Rehabilitation Corporation usually serves as the advisory committee responsible to the state emergency relief administration for the general program of rural rehabilitation within the state, and the executive officer of the corporation is usually likewise the director of the Rural Rehabilitation Division of the State Emergency Relief Administration concerned. In the carrying out of the rural rehabilitation program, the administrative officials of the State Emergency Relief Administration act as agents of the corporation, and enter into necessary contracts and agreements in the name of the corporation.

County organizations follow the same general plan as state and national organizations. Full use is made of county agents, teachers of vocational agriculture and of volunteer county and community committees.

Drought

The rural rehabilitation program had hardly gotten underway before it became evident that the drought, which had prevailed in a comparatively limited section of the country for the three years preceeding, was spreading to include practically the entire country west of the Mississippi. As time went on both the intensity and extent of the drought increased progressively, and early in June the President requested Congress to make available the sum of $525,000,000.00 to meet the extraordinary conditions caused by this situation. Congress immediately appropriated these funds, and the President appointed a drought committee consisting of the Secretary of Agriculture, the Federal Emergency Relief Administrator, the Administrator of the Agricultural Adjustment Administration, and the Governor of the Farm Credit

Administration, with instructions to utilize these special drought funds through their respective agencies to the end that human suffering might be prevented and that the economic structure of the areas concerned might be preserved.

Upon recommendation of this committee $100,000,000 was allocated to the Farm Credit Administration to be loaned to farmers unable to secure credit from other sources for the purpose of preserving foundation herds; $75,000,000 was allocated to the Agricultural Adjustment Administration for the purchase of surplus cattle in order to cut down feed requirements; $100,000,000 was allocated to the Federal Emergency Relief Administration for the handling and processing of these cattle and distributing them in the form of beef to relief clients throughout the country; $125,000,000 was allocated to the Federal Emergency Relief Administration for the extension of human relief in the areas concerned; $50,000,000 was allocated to the Emergency Conservation Works for the purpose of establishing Civilian Conservation Corps camps for young men drawn from cities in the drought area; $50,000,000 was allocated to the Federal Emergency Relief Administration for the purchase of submarginal land in these areas and for the resettlement of destitute farmers living thereon, and $25,000,000 was allocated to the Agricultural Adjustment Administration for the purpose of purchasing seed in order to preserve seed stocks in the affected section.

The policy adopted by the Federal Emergency Relief Administration in the drought areas was based upon the provision of food and other necessities of life to farmers living in these areas and of sufficient livestock feed for their subsistence herds. The objective was to make it possible for those living on normally good land to remain where they were pending the breaking of the drought and renewal of an opportunity to sustain themselves. A further use made of these relief funds in drought areas was in the construction of dams and levees and the digging of wells for water conservation and production. On these projects relief labor was used to the greatest possible degree. Relief labor was also used extensively in the handling and processing of livestock purchased by the Agricultural Adjustment Administration and in performing clerical services in connection with the making of loans by the Farm Credit Administration.

Administrative representatives of the members of the President's Drought Committee kept the various phases of the drought program constantly coordinated in Washington, and saw to it that this coordination was carried on effectively in the field. As

a result of these efforts the objectives prescribed by the President have been effectively met. It is true that, due to the magnitude of the catastrophe, tremendous financial losses have been sustained in the drought areas and there unquestionably will remain a most serious problem of rehabilitation and reconstruction, but human suffering has been held to a minimum by the President's program and a maximum of economic salvage effected.

Rural Industrial Communities

One of the gravest problems with which we are confronted is the rehabilitation of stranded workers—that is those able-bodied unemployed who have small chance of being re-employed in their present environment and at their old jobs. These jobless workers constitute what would be the residuum on public relief, if no measures for rehabilitation should be taken, when the maximum of employment through normal channels should have been reached.

It is difficult to estimate accurately the number of these workers. Criteria are hard to apply to them. Certainly, though, they represent at least half our present relief load. Also, there are without doubt many thousands of stranded workers who are not on relief rolls, but who will be inevitably forced on unless they are given a place in the rehabilitation program. Technological development in industry, depletion of natural resources, obsolescence of industries and regulated production of agricultural commodities have all contributed to make workers stranded.

The effects of technological development are probably more serious than all the other causes combined, but they are also more difficult to point out definitely. In 1899 industry used less than two horsepower per worker; today the ratio is more than five horsepower to the worker. We know that in the decade ending with 1929 the average industrial worker's output was increased 31.8 per cent in spite of progressively shortened hours of labor. Unquestionably there were hundreds of thousands of persons out of work for technological reasons at the very height of the pre-depression boom, but most of these persons had equities invested in securities or small businesses, or they were helped by relatives who had good jobs, and so did not require public aid. These equities have now been swept away, and relatives no longer can extend help.

Since the beginning of the depression in 1929 the machine has been brought more than ever before into production formerly performed by men, and business losses have forced economies in

operation releasing untold numbers of workers, who with the ties of employment once broken, have no hope of being taken back.

In addition to the technologically stranded, still other hundreds of thousands have been left stranded by drought or by the exhaustion of timber lands, coal mines and oil fields. Geographically these fall into three divisions:

(1) Dry areas, covering a belt of 250 to 300 miles wide from Canada to the plains of West Texas. Here the normal rainfall is barely sufficient to give the 20 inches which is the minimum for farm crops. During normal, or unusually moist cycles, and attracted by temporarily high farm prices, new farmers flocked into these sections, only to lose most of their earnings when the moist years were succeeded by ultra-dry years.

(2) Dead lumbering areas, comprising the northern parts of Minnesota, Wisconsin and Michigan, western Washington, southern Mississippi and Alabama, western Georgia and the Carolinas. In some of these states, the lumbering industry is dead or dying because it was over-developed during and after the World War, as well as on account of the subsequent decline in general building.

(3) Dead mining areas, extending southwest from central Pennsylvania through West Virginia, Kentucky and Tennessee, southern Ohio, Indiana, Illinois, Arkansas and Oklahoma. Competition of oil is the immediate cause of decadence in most of these areas, but there are many oil communities that are in equally serious state, where fields have become exhausted or where competitive conditions have made continued production impossible. The permanent abandonment of the formerly very important copper mines in northern Michigan is another example. Our Michigan relief office tells us that between fifteen and sixteen thousand families have become stranded in five or six counties alone.

Limitation of agricultural production, through natural causes, or loss of markets, or through government sponsored acreage reduction, has added another group of stranded families scattered over practically every farm section of the nation.

A fourth of the nation's total population live within these specific areas of stranded population; two million in the dry areas (this including only the recognized arid areas, not the entire section covered by this year's drought), a million and three-quarters in the dead mining areas, and fifteen million in the more severely

affected agricultural areas. Up to fifty percent, sometimes more, of the population in various segments of these areas must be classified as stranded, that is, without prospect of re-employment at their previous occupation, or in the territory where they are now located.

It is obvious that the government cannot contemplate the indefinite extension of direct relief to this vast number of persons. Nor can the situation be met simply by a work relief program similar to the CWA. Rehabilitation, founded primarily upon the provision of decent living conditions and a means of self-sustenance, is clearly indicated as the most feasible and constructive solution.

These stranded workers are now public charges and we know that they are going to remain public charges as long as they stay where they are. In their present situation they can contribute nothing to their self-support. They are deteriorating mentally, morally and physically. General speaking, in spite of the enormous sums of money being spent for their maintenance, conditions under which they live are deplorable. The government is providing them with the necessities of life, but not with the necessities of living.

Now, while many of these workers may not be acceptable to high speed, modern industry, nevertheless a very large percentage of them can rehabilitate themselves and become self-sustaining citizens under conditions which may be easily brought about by the government at less cost to the government than the cost of direct and work relief as at present. These conditions involve, first, the security of homes; then facilities for small scale gardening, poultry raising, dairying and other activities directly furnishing self-sustenance. They also involve the opportunity for the application of cooperative effort in the development of industrial enterprises suitable to their abilities, together with the facilities for appropriate educational, recreational and cultural activities.

The establishment of organized rural communities, where these conditions prevail, has been demonstrated by the FERA as a practicable and economical procedure. By using work relief in the construction of these communities nearly half of their cost can be absorbed from funds which would have been expended any way in extending relief to the workmen used in the building operations. Thus the cost of the physical plant, that is the land, houses and other facilities, will be materially lessened. The

cost of relief and rehabilitation, after the plant is built, will depend upon the extent to which the families are able to take care of themselves.

Even in cases where rehabilitation is a complete failure, the ultimate cost to the government will be less than under existing arrangements. This is true because the cost of direct relief can be reduced under such conditions sufficiently below the present average cost of relief to amortize the physical investment. In those cases where complete rehabilitation is accomplished, of course, the expense to the government will be altogether taken care of. It is contemplated that families chosen for rehabilitation will first be leased the houses in which they live in order that they may demonstrate their ability to take care of themselves and to fit in with the general life of the community.

Pending the ability of a family to earn sufficient income on its own account, funds to defray the cost of the lease will be provided either from direct relief grants or from work relief, preferably from work relief which can be much more easily and satisfactorily provided in organized rural communities than under present conditions where families are isloated. When a family has demonstrated its ability to rehabilitate itself and its suitability for the general community in which it is located, then the house and garden land adjacent thereto may be sold to the family on an amortization plan extending from fifteen to thirty years.

The cost of the family units ranges from $1,000.00 to perhaps as much as $5,000.00. Families are selected for communities on the basis of their estimated ability to amortize the unit investment in the community to which they are assigned.

The agencies used to construct and operate these communities are the state rural rehabilitation corporations to which I have already referred.

The use of the organized rural community for rehabilitation is still regarded as an experiment, at least in the United States, but we have a sufficiently large number of examples of "farm-villages," where industry and agriculture are reasonably well-balanced, which have weathered the depression in this country, to convince us that we are on the right track. Such villages abound in New England, where the rural relief load is smaller than any other part of the country. We have a number of them in Pennsylvania and some in Utah. In fact, almost every state has at least a few closely knit communities which were established by North European and Scandinavian colonists according to the European farm village system. Almost invariably the residents of these

communities have managed to get by without having to go on relief.

The communities constructed by the FERA will not be materially different in their economic aspects from the more advanced types of these villages which have survived through the years. Architectually they will be more esthetic, and their location will be selected with more care to insure opportunity for economic deveopment. Health and sanitation will be given more scientific consideration, and the general lay-out will reflect the advantages of intelligent design. Also, the assistance of the government will be rendered in feasible community enterprises. In the main, however, they will fit into the general scheme of social and economic life in this country; being more susceptible, perhaps, to the evolutionary changes which are now taking place than the average small town, but in no manner burdened with crack-pot economic or social panaceas.

We do not hope to make Utopias out of these organized communities, but rather, through careful planning and preliminary supervision, to give stranded American families, whom we believe to be possessed of the fundamental resourcefulness and ruggedness of character which are common to our people as a whole, an opportunity to work out their own destinies. Investigations conducted by the FERA have convinced us that, given the opportunity and freed of the fear of starvation and eviction, the individual American citizen will find a way to take care of himself and his family.

Resettlement of Land Program Families

The program of the government in the purchase and utilization of submarginal land will be discussed by another speaker. I shall briefly outline to you the procedure for the resettlement of families living on such land. The Federal Emergency Relief Administration has this responsibility.

These families are eligible for rural rehabilitation in any form that it is extended by the state emergency relief administrations in which the submarginal land is located, provided they are unable to secure sufficient financial help from other sources. In some instances, it may be necessary to provide resettlement facilities in states other than those in which the submarginal land is located. In these cases it is contemplated that specific projects will be worked up by the Federal Emergency Relief Administration in other states where suitable land can be found.

It is evident that very close cooperation must be maintained

between the regional directors of the land program and the emergency relief administrations of the states concerned.

Upon being advised by regional directors of the land program that the acquisition of land for retirement is being contemplated in any given area state emergency relief administrators make surveys of families living in such areas, and prepare plans for the resettlement and rehabilitation of those families which are not able to make their own arrangements after removal. Such plans are explained to regional directors of the land program, and any suggestions and modifications to fit the land acquisition plans are given careful consideration.

If the survey of families in any given area indicates that removal of such families would not be in the public interest from the standpoint of the welfare of the families and expense to the government, then this conclusion is immediately communicated to the Regional Director of the land program for his information in making his recommendation for land acquisition.

Plans for the resettlement and rehabilitation of such families are forwarded, together with application for funds to execute the same, to the Federal Emergency Relief Administration. No land for resettlement is purchased nor other commitments made without the approval of the Federal Emergency Relief Administration.

In selecting families and in determining the type and extent of rehabilitation the same criteria are used as in the general rural rehabilitation program of the state. Title to any land or facilities, acquired in connection with such resettlement and rehabilitation is held by the state rural rehabilitation corporations, and these corporations function in the same manner in relation to families rehabilitated under the land program as to those rehabilitated under the general program of rehabilitation.

In conclusion, I want to make it clear that, while the Federal Emergency Relief Administration recognizes that the rural rehabilitation program in order to be successful must provide financial help that is not available from private sources nor from the Farm Credit Administration, it expects that this help will be compensated for by repayment either in cash or in work. We want rehabilitants to feel that the government is giving them a chance to help themselves. We do not want people who have managed to retain some resources of their own to feel that they are being discriminated against. In other words, the program aims to furnish opportunities which require work in order to be taken advantage of.

ECONOMIC BASES AND OBJECTIVES OF PUBLIC REGULATION OF THE MILK INDUSTRY[1]

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It is probable that in the future we will have some sort of regulation in our fluid milk markets. The dangers to the health of the community from an insanitary milk supply necessitates health regulations. The important nutritional characteristics of milk, especially for children and its important part in the total food expenditures warrant attention on securing for consumers an adequately and reasonably priced supply. We may be sure that there will be plenty of producers and distributors who will clamor for the protection of what they consider their vested interests in the market. Moreover, it appears that to let the various forces run unhampered in a market will produce a situation or a series of situations which are unacceptable to a considerable number of those concerned with the market.

Public regulation of markets may take an almost infinite variety of forms. It may extend from a few simple rules regarding sanitation to a complete regulation of every sale. In general, however, it is possible to distinguish two sorts of objectives, the first, regulation directed toward the provision of conditions under which the market will function effectively and economically, and the second, regulation directed toward the provision of special advantages for particular groups. A pretty fair case on economic grounds may be made for the first type of regulation. It endeavors to reform the market or at least prevent the growth of practices that are uneconomic in the long run. Nearly everyone agrees that as a general proposition this sort of regulation is desirable. But there will be no general agreement in a particular market as to the form this regulation should take, since if it changes the relative position of any group unfavorably that group must necessarily object. On the other hand, we may design our regulation to provide special benefits for a particular group. For example, it is clearly the intention of the Agricultural Adjustment Act to raise farm prices, even at the cost of larger expenditures by consumers. It may similarly be interpreted to intend giving present market milk producers devices to raise their prices. It was expectation of this sort of regulation that finally led to the support of the act by the organized milk producers. They have

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[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 28, 1934.

been disappointed with the accomplishments under the act largely because emphasis has been placed on the first sort of regulation. There may be a case for regulation in behalf of special groups but it is hardly on ordinary economic grounds. It may be justified on other grounds, however. For example, the burden of a depression, or the cost of an unforeseen general economic change might reasonably be assessed against a larger group when it bears especially heavily against a more restricted one. The best case for the AAA is probably on these grounds. Or the burden of a long time change in technique which is beneficial to the general group but harms a special class might be softened by gradual adoption or special assessments against the gains of the benefited classes. Labor unions have claimed for a long time special rights for their members in the introduction of labor saving devices.

There are four groups with conflicting interests that are involved in any sort of market regulation. The first consists of the consumers. They are a loose, unorganized, inarticulate group, who bear the major burden of inefficiencies and monopolies in the market. But they exercise a tremendous silent power in their refusal to buy at certain prices and in their tendency to shift to other products. The large decline in cream sales and growth of canned milk sales in many markets in recent years is ample evidence that their reactions are an important factor in any control program. This group wants a safe and low priced supply of products. The second group is composed of the distributors. They are ordinarily a small, compact and powerful group. Although harassed by temporary small members of their own class and by producer-distributors they are probably better able to look after their own interests in an unregulated market than any other group. They want a wide margin and generally also agreements or regulations to keep the milk on their delivery wagons and out of the stores. The third group consists of the producers who are now supplying the market. Their interest lies in a high price for their milk and in recognition of a vested interest in supplying the market with milk with resulting restrictions on the entry of new members in the group. They are limited in their efforts to secure higher prices by the production response of their own members and the tendency of outsiders to crash down any walls erected around the market, or to "bootleg" through these barriers. They face a grave danger of potential competition and this seriously restricts monopolistic practices on their part. Finally, there are the producers not selling on the market. This is a weak unorganized group with a wide diversity of interests.

Those located on the border of the milk shed wish to enter the market on terms similar to those already there, or if located further out they do not want producers in the market to secure advantages by diverting milk to products sold by the excluded producers. Any regulation will necesarily be concerned with the conflicting interests of all these groups and with the balancing of their positions.

Let us turn now to the special characteristics of milk markets which become factors to be considered in any program of market regulation. The first of these is the character of the consumer demand for dairy products. The demand for fluid milk is commonly thought to be inelastic, and the demand for the other dairy products especially cream more elastic than milk and probably elastic in the absolute sense. This produces a situation which it is particularly advantageous to exploit by monopolistic practices. A high price for fluid milk will curtail consumption only slightly and the total value of sales is materialy increased, while the diverted milk lowers the return in other uses only slightly and may actually increase the returns in these uses. The distributors, who are the closest to the consumers of any of the market groups, are best fitted to capitalize on this situation and there is a general presumption that they have done so to a considerable extent in nearly all markets. They have generally not been able to retain all these gains but have usually been forced to share them with the organized producers and the drivers. The big distributors need a large and regular supply of milk and the ability of organized producers to provide these supplies has given them an important bargaining weapon and has enabled them to secure at least temporary monopolistic advantages in a number of markets. Hence, the apparent strange community of interest between the distributors and the organized producers. The drivers have likewise wrested a portion of these advantages, since their personal contact with customers may result in a large loss of customers to the company if the driver is discharged or decides to quit.

A second factor is the considerable economy that in general accompanies size in milk distribution. A part of the economies arise from plant operation but the major portion comes from distribution. When a distributor gets large enough to have 30 to 40 per cent of the business of a city he secures sufficient density of customers to operate his delivery equipment pretty effectively. Small distributors must ordinarily cover wide territories in order to secure sufficient customers to operate a route. The long run tendency is clearly toward large scale distribution and if margins

are squeezed business may be expected to concentrate in the hands of the larger distributors.

The economies of size and the extremely favorable demand situation for monopoly practices operate strongly to the advantage of the large distributors. But a wide margin increases the ever present fringe of inlying farmers who find it advantageous to distribute their own milk and in recent years have increased the number of small distributors. These groups form a limiting factor on what the big distributors can maintain as a margin for distributing services. Moreover, wide margins bring other troubles. The usual uniformity of prices and standardization of product forces competition to forms of service, and expensive duplication raises distributing costs until profits are curtailed even under favorable margins. Agreements not to canvass established customers, to offer special inducements to new customers or to hire discharged drivers of another company are effective only in part.

The local fluid milk market is also peculiar in that it is only a small portion of a closely associated and much larger national market for dairy products. On the borders of nearly all milk sheds there are a large number of producers who clamor for an opportunity to sell in the market whenever it appears advantageous. There are sales in the local market of manufactured products and often cream which comes from producers at a distance. The local market may affect the general market either by restricting the possibility of sales within the market or by diverting enough milk from fluid uses to increase the volume of manufactured products to be sold. The influence of an individual market is small but when aggregated through common practices on a large number of markets the total influence may become considerable. A common example of the first type is a high price of retail cream. This will be supported by the organized fluid milk producers in markets where they supply a small portion of the milk for cream purposes. The high cream price restricts cream sales of the outside producers but probably increases the sales of fluid milk for the local producers. Situations of the latter type occur in markets where producers have succeeded in securing a monopoly price for fluid milk but are unable to control or restrict the production for the market and as a result more milk is produced than under ordinary competitive conditions. This results not only in a diversion of milk to secure the monopoly advantage but even an additional increase to be sold on the manufactured goods markets. Unless the producers can be induced to control their produc-

tion they will shortly drive their own returns to competitive levels and lower prices to other producers outside the area.

Another factor which becomes important in regulation is that the producers are ordinarily sufficiently scattered so that there is some difference of interests or at least of competitive advantages among them. Inlying producers have the possibility of the direct distribution of their own milk, partly because of their convenient location and also because they frequently have a larger and more regular supply of milk than the outlying producers. As producer-distributors they will commonly prefer a wide margin in the market since this will increase the profitability of their business and if this margin is maintained by the larger distributors it gives them a means of gaining customers by price concessions while still maintaining a workable margin. The outlying producers on the other hand have no such opportunity to enter the market and must have their milk distributed through intermediaries. They must necessarily favor a narrow margin. This possibility of entrance in the distributing business by the inlying producers has two important results; it tends to limit the margins which the distributors can secure since wide margins increase the number of producer-distributors, and it necessitates a preferential treatment of this group in any general market pool plan. They must have an especially large base otherwise they will withdraw from the pool and attempt to enter the distributing business themselves. Moreover, it should be noted that these advantages increase with monoply prices in the market.

The health regulations of a particular market are also a factor in any plan of regulation. No large city is now content to receive supplies from all who may wish to ship but provide regulations to insure safe and uncontaminated milk for their population. These regulations may also be pushed further as a means of control and used as devices to limit supplies coming to the market to the advantage of the included producers. Many believe that in the past the health departments have cooperated with the organized producers and large distributors to administer the health regulations in such a way as to benefit these latter groups. These health requirements have two important aspects. In the first place, they are technical matters and the rules are generally accepted by the courts without question. In consequence, they may remain about the only effective means of control after the courts get through deciding just what can be done toward regulation. In the second place, regardless of other regulation they remain just as effective weapons for special interests as before,

and may be so employed if the health departments desire. We may set up as elaborate a set of regulations permitting free entry to the market as we choose, but these will have no practical effect if the health departments prohibit milk from uninspected dairies and refuse to inspect new producers.

Finally, there is the great seasonal fluctuation in the supply of milk for fluid milk purposes with only small fluctuations in demand. The area from which milk must be drawn to supply the market at a given retail price is much larger in the period of short production than in the flush period. Either the market area must change, retail prices must fluctuate or some provision must be found to care for the excess of production over fluid requirements during the flush season. The disadvantage of allowing the full pressure to fall on the fluid milk market are so evident to producers that this procedure is never followed. Instead some form of a base-surplus or blended price plan is employed and this seasonal excess is distributed rather generally over all the producers for the market. In addition in recent years in many markets bases have been established in a manner designed to curtail production of old producers and hamper the entrance of new producers to the market.

If the proposed regulation has as its objective the reform of markets we may attempt it by complete regulation or by determining the principal competitive forces operating on the market and clearing away the obstacles that impede their operation. The latter probably offers the best prospects for success. The distributors are best situated to follow monopoly practices so that it is on them perhaps that we need to be most sure competitive forces are operating. This means leaving the producer-distributors free to operate in the market as far as their fluid milk sales are concerned without setting their prices or establishing bases for them. The only requirement need be that their surplus milk above their own fluid sales be turned over to the pool operated by the bulk producers to be disposed of at the surplus price. Similarly, the price of store milk would be unspecified so that a differential might be established in case distributing margins are wide. Distributors also would be unrestricted as to price, except that public announcement of price would be required and that set of prices would apply to all in the specified class. Those who sell their milk through intermediaries probably should all be required to pool their milk in a single pool. This should be open to all who can qualify under the heath regulations established in the community and can establish themselves as

regular market suppliers. This will tend to give the producers a bargaining advantage with the distributors and prevent the latter from widening their margins through the lowering of producer prices. But with reasonable freedom of entry by new producers the pool can not afford to get its price much above competitive levels. There is no reason why the producers can not run their own pool and bargain with the distributors on the price of Class I milk. Equitable bases are more difficult to establish, but it appears that they can be reasonably determined on the basis of established uniformity of seasonal production. Base advantages should go to producers with the greatest seasonal uniformity.

Now if we are endeavoring to benefit a special group we will want to restrict the advantages which other groups may have and pass these advantages to the specified group. If we are trying to raise the incomes of present milk producers of the market we will have to support a monopoly price situation in the consumers' market, make sure that the gains pass undiminished to the producers and restrict or prevent an increase in the quantities of milk produced for the market. Such a program can best be controlled by a complete regulation of the market. Partial regulation is likely to yield only partial results. The unregulated portion is likely to be in the distribution end where there is great need of assisting in the reorganization of distribution to effectuate lower costs. Such regulation means that both buying and retail prices must be set, together with distributing margins. Morever, those who are allowed to supply the market must be limited and their share in the fluid market determined. Steps must be taken to limit expansion of production by included producers.

The difficulties and dangers of regulation are very great. In the first place it must contain a large amount of arbitrariness dependent upon the judgment of the regulators. Under such regulation one largely loses the guides of competitive forces and judgments must be passed on the relative rightness of the claims of specific groups. Political pressures are necessarily great. Properly done such regulation may be highly desirable but the opportunities for mistakes are numerous and mistakes are costly, and may involve grave injustices. Morever, the origin of the difficulties of a particular class is specifically lodged in the administrators and objections to particular rules offer a remedy for the situation. One can hardly expect to injure the position of a particular group without vigorous opposition from that group. It is one thing to have a group objecting to rather vague general competitive forces and quite another to have a specific regulation which injures them

and on which they can focus attention. Finally, the legal position of such regulation is by no means clear. There appear to be definite legal limits to which such regulation can proceed. Moreover, these legal limitations are of the nature of the group objections. The court can hardly stay the economic forces of competition but they can prevent or remove any hindrances in the way of regulations which we may erect.

MILK CONTROL EXPERIENCE—RESULTS AND PROBLEMS OF FEDERAL AND STATE REGULATION[1]

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Experience with federal and state milk control automatically falls into three important groups or types. These are (1) legal, (2) administrative, and (3) economic. This paper will attempt to deal with milk control experience from these three viewpoints.

Legal Experience[2]

Milk control is in the formative stage. What eventually will become of it may depend to a large extent upon court decisions and the resulting legal status of such programs. Everyone interested in milk control is of necessity interested in the court decisions dealing with this subject.

Federal

The experience of the Federal Government in the courts will be examined first.[3] To date there has been no decision made by any circuit court of appeals, and, of course, none by the Supreme Court of the United States on the constitutionality of any section of the agricultural adjustment act. There have been two lower court decisions on this point. The first of these was made in a lower federal court in Florida and held that the entire act was unconstitutional. This decision was reversed by the circuit court of appeals upon the ground that the question of constitutionality was not properly before the lower court.

The second decision was made by a lower federal court in Chicago and upheld the constitutionality of the licensing section and of the Chicago federal milk license. No appeal was taken from this decision. Thus the constitutionality of the act has received little testing in the courts.

Of a total of twenty cases of litigation in the courts during 1934, twelve have had to do with the milk policy of the Administration. Seven of these twelve milk cases were in markets in which practically no fluid milk was shipped from another state or, in other words, there was no inter-state commerce in fluid milk. The

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[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 28, 1934.

[2] Mr. Henry S. Manley, Counsel, New York Department of Agriculture and Markets, has made helpful suggestions on the discussion of Legal Experience.

[3] This discussion is largely based upon a mimeographed statement entitled, "AAA Litigation During the year 1934," issued by the Litigation Section office of the General Counsel, AAA.

dairies involved purchased and sold all of their milk within the same state. These cases were based on the following markets: Louisville, Kentucky; Los Angeles, California, two; Indianapolis, Indiana; Oklahoma City, Oklahoma; Des Moines, Iowa, and Baltimore, Maryland. In all of these seven cases the lower federal courts held that the Federal Government had no right to regulate the dairies.

In each of these cases the government sought to justify the federal regulation of fluid milk upon the sole ground that dairy products, such as butter, cheese, etc., are being transported in great quantities in inter-state commerce and that the price received by producers for their fluid milk is so inter-related with the price of these products that the two cannot be entirely separated. Hence, it was argued, federal regulation of the purchase of fluid milk from the producer for consumption in these sales areas is legally justified.

In three of these cases appeals have been taken to the circuit court of appeals. In the Baltimore case the lower federal court held that the Baltimore Milk License was not authorized by the licensing section of the act because it, in effect, contained a marketing plan instead of being limited merely to matters which may be referred to as "unfair practices or charges."

Four of the twelve milk cases were in markets in which a substantial part of the milk supply was produced in other states than the one in which the markets were located. Three of these cases are based on the Chicago market and one on the Boston market. The position of the Government in these cases was that in excess of 40 per cent of the milk consumed in these markets is produced outside of the state; that in order for the Federal Government to effectively regulate the inter-state milk, it is necessary to regulate the milk produced and sold within each milk shed respectively.

In one case in Chicago the lower federal court sustained the theory of the Government and upheld the Chicago license. The other two Chicago cases were both decided by another judge who held the theory, and the facts supporting this theory, immaterial upon the ground that the Chicago milk license was a regulation of production of milk, and hence could not be inter-state commerce. In the case decided favorable to the Government no appeal was taken. In the other two cases, the Government has taken appeals. In the Boston case the Government applied for a preliminary injunction and the court restrained the dairy from doing inter-state

business in milk, pending the final determination of the case. The case has not yet been tried and no opinion has been rendered.

The last of the twelve milk cases involves three markets in Michigan. Several dairies in these markets sought to stop any enforcement of the milk license against them. The court refused to grant the dairies an injunction and also denied the motion to dismiss the bill, and held the case for trial as a suit for a declaratory judgment as to the validity of the milk license and the agricultural adjustment act.

State[4]

There have been several significant court cases dealing with state milk control. Two of these are decisions by the United States Supreme Court. The first was the now famous Nebbia vs. New York case. The issue here was whether the federal constitution prohibits a state from fixing the selling price of milk. The court held that such a regulation of price was not in conflict with the 14th amendment. If an industry is subject to regulation in the public interest, such regulation does not have to cease at the point where direct control of prices is involved. The following quotation from the decision is of interest:

"The constitution does not secure to anyone liberty to conduct his business in such a fashion as to inflict injury upon the public at large or upon any substantial group of people. Price control like any other form of regulation is unconstitutional only if arbitrarily discriminatory or demonstrably irrelevant to the policy the legislature is free to adopt and hence, unnecessary and unwarranted interference with individual liberty."

The second case upon which the Supreme Court of the United States has given a decision is that of the Hageman Farms, Inc. vs. Charles H. Baldwin. The dairy contested the validity of the orders of the New York Milk Control Board which set minimum prices on the grounds that it enabled it to realize an insufficient return on its milk business. The heart of this decision is expressed in the following quotation:

"The 14th amendment does not protect a business against hazards of competition." The court further pointed out that the absence of the so-called fair return resulted from "their comparative inefficiency, not tyrannical compulsion."

A third case involving the State of New York is that of C. A. F. Selig vs. Charles H. Baldwin. This was tried in a United States

[4] The writer is indebted to Mr. R. M. Loomis of the Dairy Section AAA, for assistance in preparing this part of the paper.

district court. The case arose out of the refusal to give a license because the dairy would not abide by the terms of the act. This restrained the dairy from selling milk within the State of New York which was purchased outside of that state, at prices less than those fixed for the purchase of milk from farmers within New York State. The court held that when the milk was in inter-state commerce it was beyond the authority of the state. The court noted that some of the milk was sold direct in cans and some in bottles which were distributed to customers. On the basis of the original package theory the milk resold in cans was still a part of inter-state commerce and so the act would not apply. The opposite was true with the bottled milk. The court held that the state may control it at its pleasure, although in effect, this fixes the price at which milk may be bought elsewhere, the sanction is local and is otherwise unobjectionable. In discussing the sale of the milk in the original package the court said that such action "is exactly the kind of activity against which the commerce clauses are primarily directed. No matter what the local need, as a Nation we are without protective economic barriers between the states, certainly until Congress sees fit to allow them and it makes no difference that they do not take the form of duties and imposts." There seems to be some question as to the status of milk, for example, bottled and racked in New Jersey and sold in the same bottles in New York City. Appeals are being taken by both sides in this case, the state still maintaining that it has the right to regulate canned milk, the company still maintaining that the state should not be allowed to regulate bottled milk.

A fourth and last state case which will be referred to is that of R. G. Reynolds vs. the Milk Commission of Virginia, decided in the law and equity court of the City of Richmond. Here the constitutionality of the act establishing the Milk Commission was at issue. The court failed to find that the milk industry "was affected with the public interest" and held that the right to engage in the milk business was an essential attribute of liberty as guaranteed by the state constitution. Although the court seemed to brush aside the decision of the United States Supreme Court it quoted from the dissenting opinion rendered in the Nebbia case. Thus, milk control within the State of Virginia has no legal standing at the present time. An appeal is being taken from this decision.

It is difficult, and probably meaningless, for a layman to attempt to interpret and forecast the actions of the courts. The federal cases would seem to indicate that where fluid milk is in intra-state commerce, the Federal Government will not be given jurisdiction

over its control. The argument of the Federal Government that butter, cheese, and other dairy products are in the current of inter-state commerce and directly affect the price and marketing of fluid milk has in no instance been accepted by the courts. This may greatly limit the activity of the Federal Government in many of the markets in which licenses are now in effect.

The Supreme Court of the United States has upheld the right of a state to fix prices in its regulation of an industry for the public good. However, the decision of a lower court indicates that the theory of the unbroken package will apply to milk, which may greatly handicap some states in their control programs. A layman would assume that if states have the right to control the price at which milk shall be sold as long as it is in intra-state commerce, it would seem reasonable that the Federal Government would have the same right to control milk in inter-state commerce. This points to the necessity of future cooperation between the Federal Government and state milk control boards.

Experience in Administration or Management

Many who are actively connected with present milk control programs believe that the limiting factor will be the administration or management of these programs. The courts may establish a legal basis for these programs which will allow considerable freedom of action, but in the opinion of these men, the programs will break down through lack of ability to administer or manage the problems involved.

Considerable administrative experience has now been gained from both federal and state sources. The policy of the Federal Government in its milk control program may be divided into three phases. The first phase, which lasted approximately six months, gave the industry a considerable part in deciding what should be done through federal regulation. Marketing agreements, the terms of which were largely decided through bargaining between the producers and the distributors in each market, were placed in effect along with a licensing system for distributors. In December of last year this policy was abruptly discontinued and one which may be described as an attempt to centralize control in Washington was undertaken. The agreements were abandoned. Distributors were entirely ignored in developing the term and conditions in the new licenses, and producers were given only minor consideration. This policy was accompanied by a storm of protest including considerable attention from Congressmen. The third phase which has been gradually developing during the past

six or eight months is a shift toward more and more industry cooperation with organized producers having a larger voice in the provisions of the licenses.

In the states there are a number of variations in control programs. One example is the program followed in Ohio. Sixty-five local districts have been established and agreements have been reached within the industry as to prices and conditions under which milk will be marketed. With some modification these agreements have received the sanction of the Ohio Milk Commission. This program has given a maximum of industry control and of local responsibility. On the other hand, some states have issued all orders from a central office and practically all control and responsibility rests with the central body. The size of the state, of course, is important in this regard. Connecticut, a small state, is an illustration of this latter method. There the same prices prevail throughout the entire state, while in the past some localities had prices lower than those in cities such as Hartford. From the different policies some valuable experience should be available.

The ability to obtain compliance appears to be the final test of successful administration. It should be stated at the outset that the size of a market seems to markedly affect the ability to obtain compliance. For example, Vermont with no city with a population greater than 30,000, has had a most successful administrative experience.[5] New York State has had little difficulty in upstate cities while New York City has caused no end of trouble. In Ohio the greatest difficulty is in the Cleveland market.[6] This appears to be a generalization which can be made for the country as a whole. Some of the reasons for this may be: (1) It is easier to obtain the producer point of view and have it considered by the urban population in smaller centers. (2) It is not so difficult to crystalize public opinion and bring it to bear upon the case of a violator. (3) It is less difficult to obtain the effects and values of local responsibility and local authority. (4) Smaller cities seem to offer a better profit opportunity for distribution. (5) The political powers in a large city must, of necessity, demand lower food prices regardless of effects in the country.

It may be a startling observation, but it is apparently true that to date the ability to obtain compliance has been to a considerable extent the ability to settle cases out of court. Possibly, when the

[5] Commissioner E. H. Jones has had long experience with milk marketing problems and this should not be over-looked in considering the Vermont experience.

[6] C. G. McBride of the Ohio Milk Market Commission states that some of the difficult situations in Ohio are in the small markets.

legal basis for milk control has finally been established through court decisions, this statement will not have the significance that it now has. Court procedure is an extended process and during this process the violations in a market usually continue. The remainder of the market may not be willing to allow these violations to continue at their expense while the courts are deciding. For example, in Baltimore, which is generally conceded to be the most highly organized market in the country, distributors handling approximately 10 per cent of the total volume violated the federal license. A series of events threw the final decision upon the courts. The distributors handling 90 per cent of the volume, who had been willing to abide by the terms of the federal license, refused to allow the 10 per cent to violate while they continud to comply. As a result the license was rendered inoperative for the entire Baltimore market.

The approach to the whole control program in Ohio has been to go to great length in obtaining industry agreement, with a maximum of industry responsibility, within small areas. Local committees familiar with the conditions in the areas have assisted in operating the agreements. In addition cases of violation have been vigorously pushed in court. This program, coupled with experienced, central administration, is considered by many to have rendered as successful a control experience as any in the Nation.

The New Jersey Control Board had a valuable experience in its policy of bringing violators before the Board in a public hearing. These meetings are invariably attended by representatives of the press and by a considerable number of producers. The complaint against the violator is presented, showing how the violation affects the welfare of the producers and the market as a whole. The violator is given an opportunity to defend himself personally and through counsel. After hearing both sides, the Board decides how the case can be settled immediately as far as it is concerned. A fine or punishment commensurate with the violation is suggested with the understanding that the case will be dropped if the violator meets the Board's conditions. It is the writer's understanding that all cases to date have been settled at this point, without court action. This method has several advantages. Since the press and producers are present, it immediately brings the power of public opinion into the case. Most milk distributors are exceedingly sensitive to public opinion. A great deal is done toward educating the public and the producers on the problems which exist in the industry and the work which the Board is do-

ing. Finally, it is very important that the cases are decided immediately and no disturbing element such as an unsettled court case is thrown into the situation.

The Providence market has furnished another illustration. The federal administrator set up local committees to assume some of the responsibility in establishing bases for the base-surplus plan and in hearing cases of violation. The attitude of producers toward the license improved rapidly after one or two experiences in hearing cases of violation. They better appreciated the task of the administrator, they began to feel responsibility in the program, and thus they brought producer opinion to bear upon the violator.

Where control programs have been given the support of well-organized cooperative associations, the administrative difficulties have been greatly reduced. The cooperative associations furnish a means of having the control plans and problems understood by producers. At almost every turn they can assist in the operation of the control program. A specific, though somewhat extreme illustration, occurred in the Boston market. One of the large companies paid the producers shipping to them "on account" and stated that they would pay the full license price when and if certain conditions were met. Consolidated Dairies, Inc., the largest cooperative association, announced that the full license price would be paid or milk would be withheld from this company as of a certain date. The company paid in full just before the close of the period of grace.

It was stated at the outset that compliance was much more difficult to obtain in large markets than in small. This may account for the New York leadership in pushing legal cases to a decision by the courts. All interested in milk control are indebted to the New York group, since in the final analysis the legal status of milk control must be definitely established.[7] It should not be assumed, however, that New York is depending upon court action alone. A compliance, or enforcement, office has been established in New York City and industry cooperation and local committee action is the basis of the program through this office.

There is an illustration of cooperation between the federal program and a state program which deserves mention. In Providence, Rhode Island, there is a federal license and the Rhode Island Milk Control Board also operates. The state law incorporates the provisions of the federal license and then allows for the setting of

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[7] Mr. C. H. Baldwin, Commissioner, Mr. H. S. Manley, Counsel, and Mr. K. F. Fee, in charge of the Milk Control Division, New York Department of Agriculture and Markets, have been largely responsible for the New York program.

resale prices, terms and conditions in addition. There is no fixed and definite plan of cooperation between the federal administrator and the State Board. These two agencies have moved ahead together, each keeping the other informed of its moves. They have planned action on compliance so that it was mutually beneficial. The whole program to date appears to have been highly successful and to have worked to the advantage of both control programs. Everyone seems to be thinking in terms of cooperation between state and federal agencies. Here is an experience of about nine months of such cooperation.[8]

Resale prices are still one of the most controversial subjects in milk control. The federal experience has led to the belief on the part of most of those connected with the program in Washington that such prices are unenforceable. Some state agencies, for example the Pennsylvania Board, find the setting of resale prices mandatory under their laws. Others ask how the producer-distributor and the cooperatives that deliver milk can be controlled without resale prices. Possibly a fair summary of the experience with resale prices is that prices to the consumer have been controlled to a reasonable degree, while resale prices on "wholesale" milk are much more difficult to control. It seems unwise to make the fixing of resale prices mandatory. On the other hand, it seems unwise to eliminate definitely the possibility of using them. There are some markets and certain conditions which may prove impossible to meet without some influence on resale conditions. The most that can be said is that experience with resale prices has not yet produced a clear-cut answer for all conditions.

The proper handling of the producer-distributor in control programs, especially where equalization is attempted, is still an open question. The Connecticut Milk Control Board found that complete equalization with all producer-distributors included in the pool was unenforceable. The federal program started with complete equalization on the part of producer-distributors as its goal and has gradually changed until now a large percentage of this group is eliminated from the pool. The analysis of one large market showed that six distributors made 90 per cent of the sales, that 30 distributors, including the six above, made 96 per cent of the sales, while the last 4 per cent of sales were made by over 200 distributors, a large part of whom were producer-distributors. It is evident that the group selling only four per cent of the volume could "out-vote" the group handling 96 per cent, they could make

[8] Mr. S. W. Tator has been the Federal Administrator and Commissioner H. R. Lewis, Rhode Island Department of Agriculture, has been chairman of the State Control Board throughout most of this period.

the greatest clamor and they are protected from the criticism of the "big fellow with power." Under such conditions the point where law breaks down is quickly reached. The diffuculties of administration are evident. The two answers most often made to this problem are: (1) resale prices and (2) a base which limits building volume at the expense of the remainder of the market. The problem needs much careful study.

Milk control programs have been handicapped through inability to secure trained personnel. The ideal milk administrator should be a past-master in handling men and human situations, he should know milk marketing, he should be a trained economist, he should be an expert accountant, and have at least six or seven other abilities at his command. It has been said that no market administrator should remain in the same job more than six months. The reason for this was well illustrated by the statement of the manager of a small cooperative association. When a farmer requested something which could be obtained, this manager told the farmer he would take care of it. When a farmer requested something which could not be given to him, the manager told the farmer that it would be taken up with the market administrator. Such a program cannot endure. If milk control continues, market administrators will become better trained and means of sharing both the making of decisions and the taking of responsibility will be developed.

Much of the foregoing discussion shows the value of local responsibility, of industry cooperation, of placing the facts before the public, and so bringing to bear the power of public opinion, and finally, of setting cases quickly with a minimum of market disturbance. The federal program seems to have been greatly handicapped on several of these points. Except as market administrators may have established committees, the Detroit market is the only market under a federal license which has a local committee. The knowledge obtained in a market has not been revealed and so the public is kept in the dark. This tends to eliminate industry cooperation and the values of public education and of public opinion. It leaves court procedure as the only means of obtaining compliance.

Economic Experience[9]

The economist is interested in the following points among others, in connection with milk control experience: (1) Have

[9] The writer is indebted to the following persons who have been requested and who have given assistance in furnishing data for this section: Leland Spencer and M. C. Bond, Cornell University; R. L. Gillett and L. L. Clough, New York Department of Agriculture and Markets; W. M. Requa,

producers' prices been increased and have they been increased relative to other prices? (2) Have the spreads for distribution been increased and have they been increased relative to the increased costs of distribution? (3) What has been the trend of both production and consumption since control as compared with previous trends? (4) What has been the trend of canned milk sales during the period of control? The data on the above questions are fragmentary and have been affected by so many economic forces that few clear-cut or definite statements can be made. Attached hereto are tables showing some of the data which bear on these questions.

Prices have been increased. All reports show that producers' prices for fluid milk have increased more rapidly than has the general price level and more rapidly than the price of butter. One study[10] shows that prices have been increased most in cities under the jurisdiction of state milk control agencies, that they have been increased in markets where federal licenses exist and that they have increased little or not at all where there has been no control agency. Since all control agencies have as one of their purposes the improvement of the producers' economic condition, these price increases may be taken as a considerable measure of success.

The available reports indicate that dealers' spreads have also been increased somewhat where resale prices have been fixed. No worthwhile quantitative measurement of this increase as compared with increased costs appears to be available at this time. Material released by the Agricultural Adjustment Administration shows that spreads in markets with federal licenses have been reduced, as compared with spreads in markets where there is no control. Here is another subject which requires and should be given thorough study.

Different markets appear to be having quite different experiences with respect to trends in production and consumption. The period of time is too short to attempt conclusions and the forces affecting different markets are not clear. Data should be made available as quickly as possible, since new control agencies are being established and are anxious to learn from the experience of others.

Dairymen's League Cooperative Association; S. W. Tator and Mrs. E. S. Noton, Providence Milk Administrator's office; W. H. Bronson, New England Milk Producers Association; W. A. Wentworth, Dairy Industry Committee, Washington, D.C.; H. B. Rowe and Harry Trelogan, Brookings Institution; A. H. Lauterbach and E. W. Gaumnitz, Agricultural Adjustment Administration; F. F. Lininger, Pennsylvania State College; Paul A. Young, Ohio State University; C. C. McBride, Ohio Milk Marketing Commission; W. B. Duryee and Mr. L. B. Burke, New Jersey Milk Control Board; C. G. Morris and H. C. Fowler, Connecticut Milk Control Board; E. A. Perregaux, Connecticut State College, and E. E. Vial, Bureau of Agricultural Economics.

[10] W. A. Wentworth, "The Administration's Approach to the Fluid Milk Industry" before the International Association of Milk Dealers, Cleveland, Ohio, October, 1934.

In Boston the data show that total production has been decreasing the consumption, as indicated by receipts at the market, has been increasing under the federal license. Data from the administrator's records in Providence show that both production and consumption have been decreasing since the federal license went into effect. This license carries the highest producer price in any federal license, namely $3.40 per cwt. for 3.7 milk sold as fluid. Class I sales began to decline when the price was increased to both producers and consumers (the latter by the State Control Board) at about the time the textile strike was having its effect. The New Jersey data show about a 3 per cent increase in consumption and about a 5 per cent increase in production during the control period. In New York receipts of milk began to decline before control went into effect and have continued to do so in spite of a half million dollar advertising campaign for milk under state auspices. New York has had severe drought in some sections and apparently this with the high prices of grains is causing production to fall somewhat at present.

The data on sales of evaporated milk show a 7 per cent increase for the first 10 months of 1934 as compared with the same months in 1933. It is generally believed that the use of evaporated milk has increased in markets under control, but little quantitative material is available.

One of the most interesting statements on this subject has been issued on the basis of the experience in Connecticut. The Connecticut Control Board has established producer prices higher than those in any federal license and probably higher than those of any other state agency. Concumer prices have been set at 14 cents a quart which is as high or higher than any known official prices. This policy has been criticized severely by many. Recently a member of the Board gave a radio talk and raised the question of lowering prices. The Connecticut State College issued the following statement: "This high price has driven many persons to buy canned milk in preference to fresh fluid milk. Sales of milk in Connecticut dropped 5,000 quarts a day between August, 1933, when the 14-cent price went into effect and August, 1934. This loss is about one per cent of the total state output. The consumption of canned milk has increased 21 per cent in the same period." While the reported increase in consumption of canned milk is important, the surprising thing, in view of all that has been said, is the small decrease in fluid sales.

The control programs give a golden opportunity to obtain more facts about the milk industry. Every effort should be made by

economists to take advantage of this situation. Mr. C. G. Morris, chairman of the Connecticut Milk Control Board, recently said to the writer that when all was said and done the great value of the Control Board was its educational work. Increased knowledge of the milk industry will reduce administrative problems and will be of value to the general public as well as those actively engaged in the work. There is much to be gained and nothing to be lost from a knowledge of the facts. Everyone should cooperate in making them available.

Discussion by H. B. Steele

Pennsylvania Milk Control Board

It will be my purpose to approach this subject primarily from the basis of a public official's point of view, rather than from the standpoint of an economist.

Much has been said and written in the past few years about public regulation, from the standpoint of bettering marketing practices in the food industries, especially those food products which enter into the daily use of the public. Among these necessities of life, milk and dairy products have been of major significance. These regulations have likewise been advocated with the thought in mind of providing special advantages to certain groups of people interested in the production and distribution of these food commodities; the primary emphasis being placed on fixing the prices returned to the farmers who produce the raw materials.

In the past few years, milk has become a public issue. Legislative committees, the city press, the schools, housewives' groups, and others have featured many discussions on the plight of the dairy farmers, the malpractices of milk distributors, and the relative costs of dairy products from time to time. This publicity has resulted in various attempts at public regulation.

The objectives in those regulations can best be set forth by reciting excerpts from the preamble of one of the laws recently enacted concerning milk. This preamble recites briefly the problems which the law is designed to correct. I cite this preamble from the law with which I am most familiar, namely, the milk control law of Pennsylvania, which reads as follows:

> "Whereas, Unhealthful, unfair, unjust, destructive, demoralizing and uneconomic trade practices have been and are now carried on in the production, sale, and distribution of milk and milk products in this Commonwealth, whereby the dairy industry in the Commonwealth and the constant supply of pure milk to inhibitants of the Commonwealth are imperiled; and
>
> Whereas, Such conditions constitute a menace to the health, welfare and reasonable comfort of the inhabitants of the Commonwealth; and
>
> Whereas, It is necessary to protect the well-being of the inhabitants of this Commonwealth, to promote the public welfare and to preserve the strength and vigor of the race by declaring that the production, transportation, manufacture, processing, storage, distribution, and sale of milk in the Commonwealth of Pennsylvania is a business affecting the public health and affected with a public interest; and

Whereas, The production and distribution of milk is a paramount industry upon which the prosperity of the Commonwealth in large measure depends; and

Whereas, The present acute economic emergency being in part the consequence of a severe and increasing disparity between the prices of milk and other commodities, which disparity has largely destroyed the purchasing power of milk producers for industrial products, has broken down the orderly production and marketing of milk, and has seriously impaired the agricultural assets supporting the credit structure of the Commonwealth and its local governmental subdivisions; and

Whereas, The danger to the public health and welfare is immediate and impending, the necessity urgent and such as will not admit of delay in public supervision and control in accord with proper standards of production, sanitation and marketing, the foregoing statements of fact, policy and application of this act are hereby declared to be matters of legislative determination."

While this preamble is couched in general terms, I need only call to your attention a few of the outstanding facts that substantiated the legislature of Pennsylvania in enacting an emergency law to correct a major evil.

At the time of the enactment of this law, a price war was in progress in one of the major markets of the state, wherein consumers were receiving milk at $0.05 per quart delivered to the door steps, and producers were receiving some $.014 per quart for their product. The second largest city in the Commonwealth had been embroiled in a price war of some two years duration in which the low ebb of prices was $.08 per quart for milk at the homes and $.025 per quart for the producer—out of which these farmers paid transportation to the market. These conditions were duplicated in many areas throughout the state. Forty per cent of Pennsylvania's farm income was derived from milk. Tax delinquencies had mounted by leaps and bounds, farmers had ceased to buy paint for their buildings, tires for their automobiles, and clothing for themselves and children. No one has yet been able to measure the extent to which the farm assets were depleted in this period. Certainly the catastrophe was of major importance. To correct these evils, to bring some degree of equality between the farmer's milk dollar and the prices of those products which he desired for living and for production was the fundamental objective behind this emergency legislation.

This objective is primarily concerned with the securing of a proper division of the consumer's dollar among the various interests necessary to produce milk and carry it through to the consumer in its various forms. There is a diversity of interest, as has been stated heretofore, between producers and producer groups among themselves. However, this diversity of interest goes far beyond the immediate conflict between farmer groups for the fluid milk markets, when one approaches the question of properly dividing the consumer's dollar.

The fundamental objective of the control board or regulatory body, as I conceive it, is to so fix the prices of milk from producer to consumer, and to so regulate the conditions surrounding the processing and marketing of this product that the greatest good will come to society as a whole. This means that the divergent interests of the three groups, the producer, the distributor, and the consumer, will be so balanced that unfair advantage will not result to any one. I am taking for granted, of course, that the regulatory measure is designed to apply in a competitive economy; the state

or federal agency acting as the umpire that lays down the rules or limits within which the competitive game goes forward. Producers of milk, among themselves, may compete for the better markets, or through the adoption of more efficient methods of producing. Distributors within the price limits set by the regulatory board may compete in salesmanship and method of operation for their business. Consumers may choose to use or not to use milk and its products in whatever form or amount they see fit. The interests of these groups within themselves and between groups are not common.

However, when one of these groups either by competitive effort destroys itself, or is destroyed by another group that has through some means enlarged its powers, the welfare of a large mass of people is jeopardized and then there arises a community of interest. Speaking in specific terms, the elements making up the processing and distributing branch of the dairy industry, during the past few decades, have become much more highly organized and controlled than the factors of production. On the other hand, depression had intensified the competition within the ranks of production of milk. The consequences have been violent upheavals, price wars, liquidation of production enterprises, depletion of farm assets, and a whole train of evils resulting from a curtailed buying power on the farms. On the other hand, distribution has continued in the saddle with little liquidation of capital, fair profits (high in some instances), with labor receiving almost predepression wages.

Many evidences of the diversity of interests between producers, labor, and capital are apparent in the experiences of milk control boards. In the few brief months of their existence, already there is a tendency on the part of organized labor to get for itself a larger share of the consumer's milk dollar. Labor has watched with some degree of envy the benefits which have been secured for milk producers.

When it comes to marking down specifically the rules of the game, the limits within which competitive forces are to play, the milk boards generally are without legislative guidance. The objective of price "parity" is set up as the goal but only one factor in the parity equation is within control of the board, namely, the price of the milk sold. The other factor, the price of goods purchased for production and for living is as elusive as ever. Price fixing, however, does become the prime function of a regulatory board. Coupled with this function is a group of secondary considerations, all of which ultimately are necessary to secure actual price fixing. I refer to the defining of trade practices; fixing responsibility on either producer or distributor for transportation and refrigeration; limiting the types of services to be rendered purchasers, all in an endeavor to create a price limitation that is clearly defined and uniform for goods and services of equal quality and quantity.

In the case of the Pennsylvania Milk Control Board, the prices fixed by the regulatory body are expressed as minimum prices thereby permitting some latitude both as to the amount to be paid producers and the prices to be charged consumers. This idea of fixing minimum prices rather than arbitrary prices is one of the features of the law which makes it an emergency measure, as distinct from a public utility measure. The principle of fixing the low level of prices is a direct protection to the producers of milk. To this extent, the law has been considered a measure primarily for the protection of one class in the state's population. The act itself permits

the regulating body to fix maximum prices to be charged consumers, but the fixing of these prices is not obligatory upon the regulating body.

Cost of raw materials plus cost of operation is assumed to determine the ultimate price level at which any one distributor disposes of his product. Under the application of the law, each distributor has the right to charge a higher price than the minimum fixed by the orders of the Milk Control Board should he deem it necessary to charge such price to cover his costs and to return a profit. Competition, however, tends to make the minimum price fixed by the Board the maximum price. This is only a tendency.

What shall be the minimum price to producers and the minimum to consumers? Control boards generally have attempted to narrow the margin between the consumer's price and the prices paid producers. One of the biggest items of costs between the producer's price and the consumer's price is the payment made to labor, both for delivery purposes and for processing and merchandising. If the margin is to be narrowed beyond the percentage which represents the net profit to distributors, the one item in which the biggest showing can be made would be to reduce the rates which go to labor. This may be done by fixing a minimum consumer's price requiring a reduction of the rates paid labor or increased demands upon the individual worker or the substitution of machinery for labor. Organized labor is watching this movement quite closely and will, no doubt, make its wishes known through legislation or otherwise if producers are benefited at the expense of labor. On the other hand, if both labor and producers are dealt with fairly, the question then arises as to who shall absorb these advance payments; from what source will the reduction in margin be secured. Capital in the form of land, buildings, and equipment cannot be maintained in the dairy industry without renewal and without payment for its use. If the consumers are finally asked to pay a price for milk and milk products which will yield a fair return to producers, to labor, and to capital, we may look forward to a condition in which either the consumer must have more purchasing power or be faced with an effort on his part to substitute some cheaper commodity for his usual milk supply. We have some classic examples where substitutions by consumers have been brought about as a result of the efforts of regulatory bodies who fix rates. We need only to cite the railroads as an example of what may happen where a commodity which is affected with a public interest is brought under extreme governmental regulations. While the regulatory bodies and the industry were at loggerheads as to what were fair rates, fair investments, and fair returns on investments, the public was substituting for railroad transportation a new form and mode of travel.

Having determined what the proper price should be to producers, under a given set of circumstances, a regulatory body must determine for itself its own objectives when fixing the minimum prices to be charged consumers. The tendency for the minimum price to become the actual price may result in the forcing out of existence those distributing elements which are more expensive than others. If a regulatory body can determine the actual cost of processing and distributing milk in each operating unit, it can fix a minimum price at such a level as to force out of existence any portion of the distributing units. This is one way to create a monopoly of milk distribution without arbitrarily doing so. Such a procedure has some characteristics of the "survival of the fittest" economy. If margins are to be

narrowed without extreme sacrifice to labor, it seems to me that this method should be pursued. The speed and the degree of application are matters of discretion with the regulating body, public opinion, and the courts. If, on the other hand, it is the objective of the regulating board to maintain in business the number of distributors it finds there, it may fix a minimum price high enough to afford the cost of distribution to the least efficient distributors and thereby return to the efficient distributors a high profit.

Enforcement of the law and the regulations issued, is the most significant objective to be attained by a Milk Control Board. All that I have said concerning other objectives is of no avail unless those to be regulated are actually required to meet the regulations. There is no better way to test the value of a law than an honest effort to enforce it upon all who are subjected to it. Lack of enforcement breeds only contempt. It likewise places a premium upon disobedience and a hardship upon the conscientious, law abiding citizen. The results of regulatory measures from an economic standpoint cannot be seen unless there is actual regulation.

In considering the objective of enforcement the problem of financing the policing system of the state quickly arises. In Pennsylvania, for example, there are some nine million consumers using milk every day. Likewise, there are some five thousand persons or firms processing and selling milk to these consumers, and some eighty-two thousand producers of milk delivering their product to the distributors. The number of daily transactions involved in this industry mounts into the millions. One must seriously consider the size of staff necessary to enforce regulations over this vast group. Who will finance it? How much will it cost? Will the results justify the cost? If public regulation of the dairy industry is judged by the past few months of experiment, I fear that improper conclusions will be arrived at because adequate enforcement machinery has not been furnished.

The character of the legislation which is enacted for the public regulation of the milk industry must be determined in the last analysis on the basis of whether this legislation is to correct an emergency condition or is to be of enduring nature.

If the objective of the state legislation is to control the dairy industry permanently and completely, the type of legislation now in effect will of necessity have to be strengthened and broadened in its power in order that the regulatory body may have a greater degree of control over all factors of production and distribution than now exists. This degree of control will be expressed in powers to regulate the quantity of milk produced, the amount of capital invested in distributing machinery and equipment, the number of organizations which may engage in such distribution within a defined area, the territory to be served by such distributing groups, and such other factors as affect all of the elements of distribution and production. However, I do not interpret this to be the present objective of legislation, nor am I convinced that such a system would be desirable. The regulatory measure, I believe, should be so designed and administered that free competition may still exist within broad, but well defined limits. Individual effort, initiative, efficiency, and ingenuity should still be rewarded with greater net returns, both in the producing and distributing fields. At the same time, when advances have been made in method and

have become generally accepted these benefits should be passed on to consumers in lower prices. The system should be so designed that the strong, either financially or in organization, cannot take unfair advantage of the weak by engaging in ruthless and blind competitive practices without check.

In conclusion, may I state that no governmental body fixing prices for milk can nullify economic law. Such a body can, if it chooses, seek a proper understanding of these laws and work in harmony with them rather than attempt to overcome them. The law of gravity is just as immutable today as ever, yet we ride in heavier-than-air machines every day far above the clouds. The machine is designed to coordinate other physical law with that of gravity. Price fixing should be approached in somewhat the same spirit. Prices cannot always be raised to producers and lowered to consumers. Distributors' margins and profits cannot always be reduced. Parity prices to producers cannot always be attained, and once having been attained do not stay at this level without the continued application of the powers and principles that brought the prices to these levels.

Discussion by H. P. Young

Hood Milk Company, Boston, Mass.

Dr. Corbett has presented milk control experience touching on legal, administrative, and economic aspects.

While I have no quarrel with his general conclusions on economic results, it is perhaps fair to call attention, in passing, to the fact that both federal and state milk controls have not only increased the prices that farmers have received for milk but have also directly or indirectly increased the prices that consumers have paid. Without doubt this has limited consumption of milk and probably somewhat retarded the course of normal business recovery in other lines than dairying.

With respect to dealers spreads let me introduce this thought for what it is worth. An analysis of distributor spreads before and after control that does not cover the facts about discounts and rebates, is incomplete. For instance, one market in which the Massachusetts Control Board is attempting to regulate resale prices, the schedules adopted were publicized as those in effect before control. The retail wagon price was set up at 12 cents. Some milk before control was being retailed at 12 cents but I venture the opinion based on some knowledge of the situation that the average wagon price just before control was about 10.5 cents a quart. This instance is probably typical and I feel it is safe to assume that the establishment of resale price schedules has increased distributors spreads, I should expect this in every case.

I should like, however, to broaden the discussion of Milk Control along the lines of legal and administrative experience. The emphasis will be on enforcement. I shall discuss:

1. Fundamental principles of milk price stabilization.

2. Federal milk marketing agreements and licenses and state milk control boards as to their enforcement and enforceability.

3. What there is of federal or state control that is sound public policy and that deserves to become a permanent part of our dairy industry.

Fundamentals of Price Stabilization

1. Producers for a given market should be paid a uniform price, except for quality and distance-from-market variations.

In markets where only a portion of the total milk production is salable for fluid milk consumption, pooling or equalization of sales is necessary.

In markets where there is no surplus production above fluid milk requirements pooling is obviously unnecessary and a useless expense. The reasons why in surplus producing areas pooling is necessary in a price stabilization program are as follows:

(a) Milk for fluid consumption will net producers about twice the price that milk for cream or manufacture will net.

(b) Producers if they sell more than average surpluses will become dissatisfied and are almost certain to wreck the program by excessive competition for fluid sales.

The AAA has recognized the principle of equalization of returns from sales of fluid and surplus milk and has incorporated equalization in every federal license that has come to my attention. State control boards have in New England either ignored equalization or have failed in enforcement. Except in Connecticut and the Boston milk shed production is so closely adjusted to sales of fluid milk in New England smaller markets that equalization of sales is not a necessity of milk price stabilization.

2. Distributors should have a uniform buying price for milk and the point of uniformity should probably be F.O.B. the railroad terminal nearest the distributor's city plant. The AAA has failed to recognize this fundamental principle and I shall speak further of this.

State control acts have laid down definite rules that require a uniform purchase price to all distributors.

Our experience may be listed as follows:

(1) A federal license and marketing agreement for the Boston area in effect from November 3, 1933, to January 15, Feb. 1, or March 15, 1934. Which of these dates is correct I do not know and apparently no one in the AAA is clear on this point.

(2) A federal milk license for the Boston area, effective March 16, 1934 and as amended still operative.

(3) Federal milk licenses for Providence, R.I., and for Fall River, Mass., effective April 1, 1934, and as amended still operative.

(4) A Rhode Island milk control act and a control board that went into action July 1, 1934, and is still in operation.

(5) A Massachusetts control act and control board that went into action September 16, 1934, and is still operating. Milk control activities in other states will be mentioned.

The first federal license and marketing agreement came about when early in 1933 the four governors of northern New England requested the federal authorities to come to New England and straighten out the milk situation.

Attorneys for most of the milk companies and the cooperatives with their principals spent large amounts of time and much expense was incurred in arriving at the control that went into effect November 3, 1933.

A director of the market was selected by the signers of the agreement and an enforcement officer from Washington arrived. The producer's price was set at 6¼c per quart for class I milk, F.O.B. market.

A complete scale of retail and wholesale resale prices was set up and we were off in Boston on the milk control track.

The license and agreement had the support of Consolidated Dairies and its dealer buyers. It had the violent opposition of the following groups:

(1) First National Stores and its source of supply, the Bellows Falls Cooperative Creamery. Their position was based on the existence of the resale price schedule and on the pooling or equalization-of-sales principle.

(2) United Farmers, a cooperative at Morrisville, Vt., and The Milton Cooperative Creamery joined Bellows Falls in their opposition. Their objection apparently was based on reluctance to equalize sales or pool.

(3) Certain so-called independent dealers who had been purchasing milk from unorganized farmers at a price equal to the composite price of the N.E.M.P.A., or from cooperative, and proprietary creameries, at ½ cent to 1 cent a quart below the organization's price. These three groups had for a period of 3 years prior to the license defeated every effort for milk price stabilization by the dairy industry itself and their opposition was no surprise to anyone in New England.

From the very beginning there was extensive violation of the wholesale price schedules. The retail price schedules called for a minimum of 11 cents per quart and a maximum of 12 cents. It was expected that wagon prices would be at the maximum and store prices at the minimum. At first this expectation was realized but within a period of several weeks a very large proportion of the wagon sales were being sold at 11 cents.

To complete the picture of chaos that developed under the first Boston license it is only necessary to outline to you that three large Vermont cooperative creameries refused to pay equalization-of-sales charges. These charges up to January 15, 1934, amounted to some $75,000 and according to informal gossip the amount was further increased by some $20,000 up to March 15, which date was, according to some interpretations, the end of the first Boston federal license.

You may well be curious to learn what the AAA did to control the situation and the answer is NOTHING. Eventually a suit was brought against one Dwyer, a very small dealer on the outskirts of the area, but according to the reports of those who followed the case, the Government's prosecution was inept and faltering.

We may sumarize experience under the first Boston license as follows:

(1) Violations went on with no attempt by the Government to control or punish offenders.

(2) Distributors who lived up to the license lost business heavily.

(3) The equalization account of the violating cooperative creameries has never been settled. This in spite of the fact that official notice was served on the industry that the license would remain in full force until a new one was established.

(4) Distributors have lost confidence that the Government will adequately enforce any license. Furthermore the most unfair propaganda, contrary to facts as we understand them, such as the Secretary of Agriculture's speech in Madison, Wis., January 31, 1934, and the regular publications of Consumers Counsel in Consumers Guide, has made cooperation by distributors with AAA to solve the dairy industries problems difficult.

(5) Finally, on March 16 a new Boston license was promulgated. This

license differed from the first only in one essential particular. Control of resale prices was eliminated.

Milk control experience in all the markets where we have operated under federal or state control has convinced us that wholesale resale prices are unenforceable and apt to make wholesale competition worse than if no regulation of wholesale prices had been attempted.

The second Boston license and the Providence and Fall River licenses raise three large questions in the minds of distributors:

(1) Are cooperative organizations to be required to obey the license (a) in the price they pay producers, (b) in paying on a basic rating plan as proprietary distributors are required to pay?

(2) Are distributors to buy their milk on a uniform price or will cooperatives having city distribution eventually pay less to their farmers and use the margin of lower payment to compete with distributors paying the license price, or will the Government eventually enter distribution of milk, buying the milk on some other basis than dealers may buy and using public funds to cover inefficiencies and losses?

(3) Will the license be enforced?

At the present time the Bellows Falls Cooperative and United Farmers are not paying their farmers on the federal basic rating plan. They are reported to be paying the equivalent of the license price. There is, however, in the license a provision that cooperatives may under certain conditions pay less than the license price. Today in New England public opinion would be strongly against any organization, cooperative or otherwise, that paid less than the license price to producers.

There has been on the part of the Government some effort towards enforcement. The license of two of the independent dealers has been revoked and injunction proceedings started to stop them from doing business, or compel them to observe the license. This case drags in federal court but will eventually, we suppose, be decided.

Two of the cooperatives have been involved and detected in glaring irregularities in their reports of base milk of members delivered. The amounts of money involved are large. It remains to be seen whether they are to get away with the things they have tried and have been caught at, and the very large question is how much have they done that has not been detected.

Bearing on the question of uniform buying price to distributors is the still open case of one cooperative creamery in the Providence market. For about six months this cooperative sold milk in the Providence market apparently in violation of the rule that any extra services must be charged for and in addition at ½ cent under the price other dealers had to pay farmers for milk. I am unable to find out what is to be done about this case. According to some interpretations since the matter involved interdistributor prices only, the AAA was without jurisdiction. In any event the creamery is still selling in Providence.

The State Control Board in Rhode Island is a body of able men. Their function in Providence is principally fixation of resale prices. In this they have been surprisingly effective. There are some violations in the wholesale field that come to light and more that do not. These I expect will grow. The Board sets the same producer prices as are set by the federal license.

The Massachusetts State Control Board has attempted to fix farmer prices in all areas outside the federal-controlled areas. Those who underbought before state control are said to be violating control board producer prices.

The Massachusetts Board is in a very anomalous position regarding fixing of resale prices. Distributors were asked to come to an agreement on a scale of resale prices whereupon the Board would make these prices effective and enforce them. They deny they are fixing resale prices but dealers have been notified if they sell at prices below the scale they will be subjected to a fine of $100.00 and one year in prison for every offense.

No action has been taken against any violation and confidence that the Board will enforce the licenses is rapidly disappearing.

Let me quote from the papers on milk control presented at the 27th annual convention of the International Association of Milk Dealers, October 15 to 17, 1934.

1. Charles F. Whiting, Boston, retiring President of the organization:

"Our industry was plunged into troubles intensified by the precipitous change of Government policies, lack of enforcement, and cancellation of agreements. No such turbulent year has hitherto been suffered by milk dealers, generally, throughout the country, and not yet is either reform or recovery in sight."

2. Allan C. Fraser, Secretary Manager, National Dairy Council of Canada, Ottawa; after complimenting the various Boards and generally expressing satisfaction with their operations, says:

"Wholesale prosecutions meantime would probably develop sympathy for the offender who is, as a rule, a small if not a poor man.

3. T. H. Price, Director, United Dairies, Ltd., London, England. "Owing to a technical error minimum resale prices could not be enforced on producer retailers. However, on the broad aspect it must be agreed that the purposes of the scheme have been fulfilled."

4. J. J. Chidgey, Gen. Mgr., N.S.W. Fresh Food & Ice Co., Ltd., Sidney, N.S.W., describing conditions that brought about control:

"The whole trade became chaotic. In the wholesale the vendors became in arrears on account of this unfair competition, and the retail delivery became unpayable. As a result the farmers price fell and it then became a political matter and in 1929 a Metropolitan Milk Bill was passed."

"Ultimately, the companies were forced to evade the Act by sending out a notice to their suppliers that in the future they would not purchase their milk but would sell it as agents only and return to the farmers the amount received less 11¢ the gallon to cover railage, pasteurizing treatment and delivery. This, of course, rendered the Act futile and in 1931 a new Act was passed."

"There was endless trouble and many prosecutions against vendors evading the Act, with convictions. Other efforts were made to defeat the Act but without success and legal steps were taken to try and prove the Act illegal as ultra vires the Constitution, claiming the Act was against intrastate trading. But the courts held that the Milk Act was valid."

"Of the agents there are now only two left, one company having absorbed the other three for obvious reasons."

5. R. E. Little, Ex. Sec'y., Int. Assn. of Milk Dealers, speaking of AAA agreements:

"No real enforcement was accomplished by the administration. The so-called producer distributor and the chiseling dealer proceeded to profit materially on our losses."

6. W. A. Wentworth, Sec'y., Borden Associated Companies, Columbus, Ohio, speaking of Marketing Agreements:

"You are familiar with the delays in enforcement of those which were approved. Failure to comply on the part of certain members of the Industry created gross competitive inequalities and seriously undermined the entire policy."

Mr. Wentworth goes on to note the squabbling in the AAA which he very nicely calls "Divergent opinions within the Agricultural Adjustment Administration" and he gives a statistical summary of enforcement to date:

"To the Industry it has appeared there is hesitation on the part of the Administrative enforcement section which has to do with the issuance of the show cause orders and the recommendations regarding dismissals, suspensions, or revocations of licenses. To the Industry it seems logical that when the Legal Section of the AAA has so much of a part in the determination of the policies and, in fact, the detail in every license imposed, that there should be little delay in aggressive action when information showing violation of license provisions is submitted."

"Perhaps in justice to the Administration, it is proper to say that on the whole it appears that enforcement under State Control Acts is no more effective than under AAA licenses."

7. *STATE CONTROL*

Conn. R. C. Fisher, R. F. Worden & Son, Inc., Waterbury, Conn.:

"The enforcement of the retail prices delivered to homes has proven more difficult. In the case of small dealers with only one or two routes, enforcement is practically impossible. All sorts of underhanded evasions are practised. In a few cases where prosecution has been attempted the courts have been reluctant to find alleged violators guilty."

"The enforcement of minimum prices paid to producer obviously is much easier than enforcement of resale prices. If effective in this effort it will place dealers on a much more equal competitive basis than before."

8. F. R. Elliott, Borden Farm Products, New York City.

"Conditions in the Industry are in a most demoralized and chaotic state verging on complete and disastrous collapse—attempts at enforcement are commendable but futile."

9. Henry N. Woolman, Secretary, Supplee Wells Jones Milk Co., Philadelphia:

"A great deal of uncertainty was caused by the lack of enforcement of the Board's orders"—and again—"Producers and distributors generally in the Philadelphia shed hope that the Board will now get down to enforcing their latest order."

There are other papers published in the report of proceedings that deserve the attention of students of milk control. F. W. Kelly of the Gridley Dairy Co., Milwaukee, calls attention to the paternalistic attitude of government towards cooperation. Cooperation is a very idealistic concept. It would seem that the AAA should insist that the cooperatives should set an example of rectitude to us poor sinners, the dealers. On the contrary, rules are made that allow cooperatives to do some of the things that dealers are forbidden to do and on the part of a dealer, would be distinctly wrong.

This attitude is fundamentally intellectual dishonesty and is a very sore point with distributors who comply with the license.

I have tried to point out to you—perhaps overemphasized—the seriousness of the enforcement problem. Unless enforcement is improved either we are not ready for control or control will go the way of national prohibition.

Dr. Corbett has reflected the attitude of AAA in stating that the ability to obtain compliance has been to a considerable extent the ability to settle cases out of court. He might have added that where the local administrator could not settle out of court the cases usually have not been settled or even prosecuted with any vigor.

Finally, what is there that is sound public policy in control?

(1) Nothing, if unenforced or unenforceable.

(2) Where most of the producers want to cooperate on a uniform selling program, governmental agencies may well make this possible by establishing a uniform selling program for all.

(3) Resale price schedules are open to question. If uniform buying prices are established and enforced then failure to set resale schedules will tend to create a monopoly in distribution. This might or might not in the long run result in lower cost to consumers.

If resale schedules are established they should be limited to retail prices, wholesale prices from the very nature of things being unenforceable. Resale schedules may or may not tend to create monopolies.

My own impression is that resale prices might better in the interest of public welfare, be left to be set by competition.

THE OUTLOOK FOR FUTURE DEVELOPMENTS IN MILK CONTROL[1]

E. W. Gaumnitz

Agricultural Adjustment Administration

The courts, both state and federal, have seen fit to uphold a vast body of regulatory legislation affecting the milk business, primarily legislation dealing with the care and handling of milk, upon the principle that such legislation has a reasonable and direct relation to the purpose of protecting the public health and promoting the public welfare.[2] Earlier legislation affected the price of milk only indirectly, but since 1933 about seventeen states and the Federal Government have passed legislation which has either aimed directly at or has been held to include the power of controlling the price of milk.

The public has a definite interest in a regular and continuous supply of pure milk, and a set of conditions which tend to weaken or disrupt the system of production and distribution which has been developed to supply this essential item of diet is a matter of grave public concern. Since the milk industry clearly is regulable under our system of constitutional guarantees, *the extent to which it may be regulated* is at present a question of vital importance. Specifically, the question as to whether a state may regulate the price of milk has been answered in the affirmative by a five to four decision of the Supreme Court. That decision was made on March 5, 1934 in the case of Nebbia v. New York.

Unfortunately, the opinion and decision in this case do not answer all the legal questions which may arise in connection with future regulation of the dairy industry, and it is the purpose here to point out some of the landmarks by which future milk policy may have to be guided. In the first place, it should be noted that Nebbia v. New York is one of a number of five-to-four decisions relating to the extent of public control over business. Reversal in

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[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 28, 1934.

[2] Walker, Harvey, "Regulating the Production, Handling and Distribution of Milk," *Public Health Reports*, (U.S.) 43: 2095-2108 (1928).

See opinion of Justice Roberts in Nebbia v. New York (decided by the U. S. Supreme Court, March 5, 1934). Under New York law the producer is "liable to have his herd quarantined against bovine tuberculosis; is limited in the importation of dairy cattle to those free from Bang's disease; is subject to rules governing the care and feeding of his cows and the care of the milk produced, the conditions and surroundings of his barns and buildings used for production of milk, the utensils used, and the persons employed in milking. Proprietors of milk gathering stations or processing plants are subject to regulation, and persons in charge must operate under licenses and give bond to comply with the law and regulations; must keep records, pay promptly for milk purchased, abstain from false or misleading statements and from combinations to fix prices. In addition there is a large volume of legislation intended to promote cleanliness and fair trade practices, affecting all who are engaged in the industry."

"Many of these regulations have been unsuccessfully challenged on constitutional grounds."

the trend of decisions has occurred in the past and its possibility is not to be overlooked in the future.[3] The Nebbia decision came after a series of decisions which were particularly discouraging to advocates of public regulation of business, but it appears to be consistent with the trend of earlier decisions. It is the earlier decisions, therefore, beginning with the case of Munn v. Illinois, which are most useful in a search for principles.

Those who would most completely restrict governmental regulation of business would insist that a business, to be properly subject to regulation, should possess the following characteristics:

(1) it must be a virtual monopoly or tend toward monopoly;
(2) it must not deny its services to anyone demanding them;
(3) it must depend for its operation upon the possession of a franchise or the power of eminent domain;
(4) it must supply some common necessity so that the public generally will be dependent upon it; and
(5) it must be subject to peculiar abuses which would endanger the public health, safety or property.[4]

It was stated in Munn v. Illinois, 1877, that the elevator business which the state sought to regulate was a "virtual" monopoly, but in 1894 the contention that monopoly is an absolute prerequisite of regulation was denied by implication in Brass v. North Dakota, and definitely rejected in 1914 in the case of German Alliance Insurance Co. v. Kansas.

That a franchise is unnecessary to such regulation has been determined from the beginning, in that Munn and Scott (involved in the Munn case) held no franchise from the state.[5] Moreover, it was shown in the German Alliance Insurance case that a business is subject to rate regulation where the right to demand service does not exist.[6]

In considering the extent to which public regulation of the milk business may be carried, therefore, it appears unnecessary either to prove that the business tends toward monopoly, or to consider that the right to demand service does not exist, or that the milk

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[3] 1927—The Court held that fees charged by theater ticket agencies could not be fixed by statute (Tyson v. Banton). In the same year, the State of Minnesota failed in an attempt to regulate unfair competition in cream buying (Fairmount Creamery Co. v. Minnesota).

1928—A New Jersey Statute requiring private employment agencies to charge no higher fees than those deemed reasonable by the State Commissioner of Labor was invalidated (Ribnik v. McBride).

1929—The Court decided that the business of selling gasoline was not affected with a public interest to the extent of permitting public regulation of prices (Williams v. Standard Oil Co. of Louisiana).

1932—In New State Ice Co. v. Liebmann, it was decided that the business of manufacturing and selling ice was essentially private and might not be limited by legislative action. See Macdonald, A. F., *American State Government* (1934), p. 639.

[4] In this connection see discussion by Manley, Henry L., in *Cornell Law Quarterly*, Vol. XVIII, No. 3 (April, 1933).

[5] See Nebbia v. New York.

[6] For quotations and discussion of these cases, see Evans, *Cases on Constitutional Law*, and Burdick, *The Law of the American Constitution*, p. 568 ff.

business does not depend for its operation on franchises or the power of eminent domain. It may appear that the matter that is important is the determination of whether a business is "affected with a public interest." But what is a business "affected with a public interest"? The United States Supreme Court, in a recent decision, stated that, "It is clear that there is no closed class or category of businesses affected with a public interest, and the function of the courts in the application of the Fifth and Fourteenth Amendments is to determine in each case whether circumstances vindicate the challenged regulations as a reasonable exertion of governmental authority or condemn it as arbitrary or discriminatory." "The phrase, 'affected with a public interest' can, in the nature of things, mean no more than an industry, for adequate reason, is subject to control for the public good.'"[7] The phrases, "affected with a public interest" and "clothed with a public use" are admittedly "not susceptible of definition and form an unsatisfactory test of the constitutionality of legislation directed at business practices or prices.'"[8] It appears that the states may adopt whatever economic policy may reasonably be deemed to promote the public welfare, and the function of the courts is to determine whether the laws have a reasonable relation to the legislative policy and are not arbitrary and discriminatory. It appears that decisions as to the validity of governmental price control must rest, finally, upon the basis that the requirements of due process are met because the laws are found to be reasonable and nondiscriminatory in their operation and effect. "If the law-making body within its sphere of government concludes that the conditions or practices in an industry make unrestricted competition an inadequate safeguard of the consumers' interests, produce waste harmful to the public, threaten ultimately to cut off the supply of a commodity needed by the public, or portend the destruction of the industry itself, appropriate statutes passed in an honest effort to correct the threatened consequences may not be set aside because the regulation adopted fixed prices reasonably deemed by the legislature to be fair to those engaged in the industry and to the consuming public." . . . "Price control, like any other form of regulation, is unconstitutional only if abitrary, discriminatory, or demonstrably irrelevent to the policy the legislature is free to adopt, and hence an unnecessary and unwarranted interference with individual liberty.'"[9]

But are there factors in the milk business that tend to result in

[7] Nebbia v. People of the State of New York, March 5, 1934.
[8] *Ibid.*
[9] *Ibid.*

the conditions outlined above? It appears reasonable to believe that there are. On the one hand, the milk distributing business, in large markets or markets wherein milk distribution is carried on largely by firms that do not produce milk, may tend to become concentrated in the hands of a few firms. If this happens, and if producers are not firmly organized, distributors may be placed in a very advantageous bargaining position, thereby tending to the development of what might be termed a quasi-monopoly through so-called "gentlemen's agreements" on the part of distributors. In this situation, prices to producers for fluid milk may be depressed practically to, or even below, the level of manufacturing prices, tending to result over a period of time in a shortage of supplies of milk suitable for distribution as fluid milk.

On the other hand, even if it is found that no elements conducive to monopoly are present in the milk business, the peculiarities of supply as related to demand appear to furnish a sound basis for regulation of the milk business. It is well recognized that the seasonal variation in milk production is much more marked than the seasonal variation in sales of milk and cream in bottles. In addition, the quality of the milk that may be distributed as fluid milk and/or cream is subject to stringent sanitary regulations in most markets. During the season of low production, the milk of certain producers is needed to meet fluid requirements, and is not needed during the season of flush production. Distributors, however, are loath to refuse to accept milk from such producers during the flush season, since they are needed during the season of low production. This results in large supplies of qualified milk in addition to that needed to meet market needs during the flush season, and tends to result in marked seasonal variation in farm prices of milk sold for fluid purposes, so that fluid milk prices are depressed practically to the level of manufacturing milk prices. Variations in supply over a period of time introduce practically the same type of problem as seasonal variation. Once a producer has equipped his farm to produce milk suitable for fluid distribution, he may continue to produce such milk even though the price for short periods of time is not sufficient to warrant his continuance as a fluid milk producer over a longer period. Producers' associations in the past have tried to level out the seasonal variation in production by the use of some form of supply proration, usually the base-surplus plan coupled with a classified price plan of selling milk to distributors. This plan tends to achieve the desired results, but, unless such plans are adhered to by the majority of producers, there are strong elements of market

instability still present. Non-cooperating producers may sell to distributors at a flat price, giving them an advantage over distributors who pay for milk according to a use classification, which is conducive to retail price cutting that may be a seriously disturbing factor, precipitating price wars. Then, too, cooperating producers tend to carry the greater portion of the surplus burden of the market. All these factors are conducive to marked irregularity of supply, tending in extreme cases to result in milk strikes and other serious difficulties.[10]

Even if all producers are based, there are still strong elements of market instability unless producers are rated in accordance with their ability to supply a rather constant volume of milk throughout the year. Producers who produce an even volume of milk throughout the year, unless given higher relative bases, are encouraged to integrate milk distribution and production, or to cease marketing through the cooperative and make arrangements with distributors who give them a preferred position in the market as compared with their position under a faulty base-surplus plan of supply pro-ration.[11]

It would appear, therefore, that the milk business is subject to peculiarities of supply and demand that furnish the basis for regulation of the business in the public interest and for the public welfare.

As was noted previously, about seventeen states and the Federal Government have passed legislation aimed directly at, or including, the power of controlling the price of milk. Indications are that a large number of states will pass similar legislation in the near future. It therefore appears reasonable to believe that the short-time outlook is for more governmental regulation of the milk business. The long-time outlook is more uncertain. It is probable that we must look forward to continuing governmental control, but the extent and form of such control over a period of time appear to be dependent upon such factors as the adequacy of plans, the effectiveness of administration of such plans, and the public attitude to the problem and its reaction to the measures taken towards a solution.

In the discussion thus far, it has been indicated that, from a legal standpoint, it appears possible to extend regulation to commodities when such extension is in the public interest. It was also indicated that there is a peculiar supply situation in connection

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[10] The foregoing discussion is based upon preliminary results of a study of the milk supply in several markets, conducted by Paul Miller, E. W. Gaumnitz, and O. M. Reed, members of the staff of the Dairy Section.

[11] *Ibid.*

with milk, which peculiarity tends toward instability in milk markets. These conclusions are not based on emergency considerations and give rise to the basis for continuing control. However, the legislation under which current regulation has been established has been of an emergency character, and while such emergency legislation has not been tested thoroughly, apparently it provides the basis for programs directed at increased producer incomes, possibly to the extent of embodying elements of monopoly.

In discussing the outlook, both immediate and long time, consideration must be given to programs which may be developed both under existing emergency legislation and under continuing legislation of a non-emergency character. At the present time, both federal and state legislation appear to aim primarily at the enhancement of farm income, and under both types of legislation, farm prices have been established. The federal act, however, appears to afford the possibility of supply control and restrictive measures, at least by agreement.

Without attempting a detailed classification, programs may be grouped as follows on the basis of the different price policies that are or might be followed: first, a program under which prices are established above those which would obtain in a competitive market which is organized as to supply (prices which might be termed legalistic or fiat prices); second, a program under which prices are established at a level equivalent to that which would obtain in a competitive market organized as to supply; third, a program under which the market is organized as to supply and the supply definitely restricted; and fourth, a program under which the supply is controlled, but not restricted and no prices specified.

None of the governmental agencies have attempted the third and fourth programs, though the general production control program proposed under the tax and benefit payment section of the agricultural adjustment act approached them. Attention has been centered mainly upon the first two types of program. Programs under which prices are set upon an artificially high basis without restriction of supply appear unwise because of a marked tendency toward an increase in total production. While such programs may receive the support of favored producers, it is probable that such programs will give rise eventually to considerable dissension within particular milk sheds because of lack of organized allocation of the proceeds of sales. Programs which aim at the arbitrary restriction of supply will probably be very difficult to make effective under either the agreement or license sections

of the agricultural adjustment act and appear not to have been considered under the state acts.

If it can be demonstrated that farm income is enhanced under programs involving a competitive market structure where supply is controlled but not restricted, it appears that such program would be defensible both from the point of view of the objective of emergency legislation and continued governmental control. Because of the probable decrease in quantities of milk being consumed in many milk sheds, it is likely that farm incomes would be enhanced during the immediate period under such a program. Such a program would involve supply control and probably the establishment of prices, at least, temporarily. Such a program would probably receive producer, consumer and dealer support.

While much has been said as to the difficulties of establishing prices at the proper level under any policy, it is probable that establishing prices is no more difficult than the problem of supply control or of proration of returns among producers. In this connection it should be noted it is quite probable that the mere establishment of prices approximating those which would obtain in an organized competitive market may well be an intermediate step which, while apparently incomplete, represents a development in the direction of complete organization and stabilization of a milk market.

OUTLOOK FOR FUTURE DEVELOPMENT FOR MILK CONTROL[1]

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In many ways the development of milk control in the Boston market has been a continuation of efforts made by the industry to provide a stabilizing influence in the markets. For a number of years before federal and state control, producer groups and distributor groups had met with the New England commissioners of agriculture for the purpose of coming to agreements on prices and stabilization of the market. In 1932 under the so-called Governor's Advisory Board another move was made to bring about a more stable milk market. This move in 1932 went further than any that had gone before. It established an approximate uniformity of cost of milk between distributors except for two cooperative groups which refused to join the movement. It did not provide for equalization of fluid milk sales between producer groups. The movement failed after a nine months' trial.

The reason for its failure was the fact that it did not embrace the entire market; it did not bring uniform costs of fluid milk between all distributors, and did not provide for an equitable sharing of the fluid milk sales in the market between all producers. To my mind, unless milk control provides for these essential fundamentals, its future is questionable. These fundamentals are primarily (1) approximately equal cost of milk on a use basis to all distributors whether proprietary or farmer owned, and (2) equalization of sales of milk among all producers.

The application of the federal license in the Boston market provides for both of these fundamentals. If either should fail of operation due to lack of proper cooperation in the industry or adequate enforcement of the license provisions, then in my opinion the license cannot be successful.

This brings us to the consideration of what we may expect in the way of enforcement under milk control. It is my belief that the only way we can get adequate enforcement is through the utilization of public opinion as the factor to bring compliance with milk control orders. The future of milk control does not depend so much on court action as it does on the ability of milk control to make the facts known so they may be used to bring those who

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[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 28, 1934.

are in violation into line. If the farmer is given the facts he will usually see that compliance is required.

Making known these facts, however, will not be successful in bringing compliance unless control carries with it the fundamentals already outlined. Any group of farmers who stand to lose their entire outlet for fluid milk unless they meet the distributor's requirements for a lower cost of milk, would not exert pressure unless they were being equalized and given a fair share of the fluid milk sales of the market. By and large in markets where there is any large amount of milk above fluid milk sales, the fluid milk price cannot be maintained materially above cream values without a sharing of fluid milk sales.

Milk control operations, of course, can be successful if they keep the prices for fluid milk in line with the value of milk in other uses. If, however, this is all that is to be accomplished by milk control, I can see no future place for their operations, since the market can maintain fluid milk prices in line with the value of competing products without assistance of a milk control body. The measure of success of any milk control operation is not the absolute price which is assured to the producer for fluid milk, but rather is the spread which the market is able to maintain under milk control between the value of the milk as cream and the price established for fluid milk. Looking into the future, therefore, it appears to me that the operation of milk control will receive the backing of producers only to the extent that they can establish monoply prices on fluid milk which will show higher spreads over cream values than the producers might be able to establish through their own operations. If over a period of time it is demonstrated that milk control cannot bring sufficient stability to the market as to establish these higher spreads, it is likely to lose the support of producers and disappear from the field.

There is an activity for milk control in handling minority groups of producers and distributors after majority groups of producers and distributors have come to agreements as to prices and terms of sale. Since the disturbing factor always in the market is the refusal of certain groups to pay for milk on a basis of its uses, and there will always be minority groups who prefer to attempt to get an advantage through such method of operations, milk control's big job will be the handling of these groups in such a way as to provide for equal cost of milk to all distributors and equal sharing of sales among all producers. Milk control in the future will be a helpful agency if it can work out equitable distribution of fluid milk sales between producer groups and bring

assurance to all that the cost of fluid milk sold is approximately the same to all distributors.

The future operations of milk control depend upon support and active help from strong organizations of producers. Adequate organization among distributors would also be helpful. Milk control operations to be successful must utilize experience obtained by producer marketing orzanizations over their long period of operation, for the general principles back of the successful operation of any milk control are beyond question those which have been worked out in the marketing of milk by producers and distributors over the last 10 or 15 years. Because of the nature of most markets which have interstate and intrastate milk supplies, there must be close cooperation between federal and state control and a coordination of policies in handling of local problems and control of minority groups. In the future better working agreements are to be expected between state and federal groups.

Will milk control move into the position where the industry will be regulated and operated as a public utility? In answering this question it would be well to first see what industries are now being regulated as public utilities. All of these industries such as light, heat, power, telephone service, and transportation are ones where a monopoly brings lower cost products and services than would free competition, since free competition would require duplication of facilities and thus bring about great wastes. Most public utility regulations have only one or a few companies operating and the establishment of rates to be charged the users only. There being a limited number, enforcement is not difficult and also determination of cost can be accomplished reasonably satisfactorily because of the similar operations of most public utilities.

Analyzing the milk business from this standpoint we find first that the number of producers runs into the thousands; the number of distributors into the hundreds. The problem, therefore, of regulating the industry as a public utility is made exceedingly difficult on account of the large number of individual establishments which would be involved. The determination of cost is also exceedingly difficult as all those here know who have had experience in working on cost of milk production or cost of milk distribution.

From the production end, there can be no monopoly since new producers may start production at any time and those already in the business may add additional production units.

From the distribution end everyone admits that there are

wastes in the duplication of facilities, particularly for distributing milk on the street. Such wastes are not at all comparable with wastes which would occur if two sets of gas mains or water pipes should parallel each other in supplying gas or water in competition with each other. Lower costs of milk could be accomplished through reducing the number of milk wagons operating on the street. So also could lower costs of groceries, laundry service, and many other items be reduced by a limitation of the number of grocery stores and laundries which could operate. The waste through duplication in such industries is not now considered by the public of sufficient importance so that the public is ready to approve a limitation of numbers of milk wagons, grocery stores or laundry deliveries. The consumers still prefer to have more than one place to buy their needs.

From the producer angle any determination of milk prices by milk control, utilizing public utility methods of accounting are likely to be exceedingly unfavorable. The usual basis of determination of public utility rates is the establishment of rates which will bring capital to the industry and keep capital in the industry in sufficient amount so a continuation of supply is assured. Applying such a rule to the price which would be paid the producer for milk would certainly bring him very unsatisfactory returns.

Milk control as now operated is meeting with favor from farmers because they believe that higher returns for milk are being obtained than probably would be possible without milk control as a stabilizing factor. In connection with this we must realize that the prices of manufactured dairy products, butter, cheese and evaporated milk, have been at low levels due in part to the position of the cattle cycle. As the cattle cycle turns, as we have a downward trend in the number of cows, the general dairy situation will improve and it may very well work out that with a higher price foundation of butter, cheese, and cream prices upon which to build fluid milk prices, the need for milk control will be considered less important and be withdrawn. For the next few years, however, I see milk control as a continuing factor in the market.

THE OUTLOOK FOR FUTURE DEVELOPMENT IN MILK CONTROL[1]

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The question of public control of the fluid milk industry is of widespread interest this year because more than a dozen states have had experience with legislation establishing agencies to fix prices paid to producers and in other ways control the fluid milk industry. In addition, the Agricultural Adjustment Administration has federal milk marketing licenses in about forty markets. Practically all of this public regulation has been promulgated within the past two years. Such a phenomenal development in the public regulation of agricultural marketing is unprecedented.

It is significant that the utilization of state legislation providing boards of control for milk, and the federal milk marketing licenses far exceed similar legislation and licenses for any other agricultural commodity or groups of commodities. The marketing agreements and licenses for fruits and vegetables are largely confined to areas remotely located from terminal markets. Milk marketing licenses and state milk control boards are active in several of the northeastern states where little if any regulation, state or federal, applies to other agricultural products.

Why has not similar state and federal legislation been employed for the marketing of eggs, potatoes, lettuce, apples, and other agricultural commodities? Milk holds a unique position and peculiar problems in the marketing of this product have faced the industry for many years. The production area for fresh fluid milk is limited by the inspection of city and state health authorities. Milk is perishable and cannot be frozen or put in storage for a period of time as can eggs, potatoes, and apples. Milk is bulky and therefore cannot be profitably shipped long distances to market. Milk is a daily necessity in thousands of homes. The health and welfare of children, invalids, and adults depend to an appreciable extent upon a constant and safe supply of high-quality milk.

In large centers of population, the supply of fluid milk which originally came directly from the producer now comes almost exclusively through country plants operated by large distributors. In many cases only one plant in a community constitutes a virtual monopoly outlet for fluid milk. Many producers have

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[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 28, 1934.

no other outlet for fluid milk. Other producers may find another buyer by transferring their milk at a considerable cost to a plant located at some distance. This situation, peculiar to milk, results in a very poor bargaining position for the producer. The poultryman, on the other hand, is in a position to sell his eggs at local outlets or can choose one of hundreds of receivers in terminal markets.

These peculiar characteristics of milk were largely responsible for the development of many strong and successful cooperative associations of milk producers in the eastern and central states where cooperative associations handling fruits, vegetables, and eggs are few and far between. The great periods in the development of cooperative associations of milk producers have come with major changes in the general price level. Some of these associations have rendered valuable services for producers in addition to those of bargaining for the price of milk. These have included distribution of surplus, surplus control, plans for adjusting production to demand, assistance in raising the sanitary standards on farms, and personal service for producers such as checking weights and tests of milk. In addition, many of these cooperative associations have done much to improve the market practices.

Many leaders of the cooperative movement were hopeful that by obtaining more complete cooperation on the part of producers in the milk shed over a period of time it would be possible to stabilize the milk markets and through the cooperative association meet and solve most or all of the problems. During the disastrous years of 1931 and 1932, the tragic decline in the general price level brought havoc to even the best organized fluid milk markets. Cooperative associations found themselves rapidly losing control of the situation. Their negotiations with distributors were only successful in delaying for a few months the drastic decline in fluid milk prices. Associations with a large and loyal membership during the period prior to the depression found themselves facing a large amount of criticism from their members and other producers. In many cases the associations were blamed for low returns to producers. The attacks on the associations were usually aimed at some plan of marketing, especially the more complicated aspects of the plan. Thus, the producers' organizations which were set up to stabilize the milk markets and prevent price cutting were given less and less support when most needed, and critized for a general price decline which was entirely beyond their control.

Experience indicates that even though 90 to 95 per cent of producers in a fluid milk market become members of a producers' association, gradually, over a period of time, factions may develop, other groups obtain access to the market, and ultimately other cooperatives may emerge, no one group having control of all of the milk. These conflicts between groups of producers greatly weaken their position in dealing with distributors. Distributors of fluid milk show most consideration for the needs and requests of producers when dealing with an organization which has control of a large proportion of milk in the territory, or when conditions are so serious that producers generally revolt and milk strikes are threatened.

The breakdown in the general price structure was the immediate cause for public regulation. The nature of milk as a public necessity and the need for maintaining high sanitary standards on farms and the desirability of maintaining an industry to meet the more normal future requirements of consumers are important reasons for the more general regulation of milk than of other agricultural commodities.

In the New York milk shed during the period 1922 to 1930, the price paid by distributors for fluid milk (class I) in the 201-210 mile zone was $3.04 per hundredweight. The classification value of milk for butter and cheese (class IV) for the same period was $1.67 per hundredweight. The difference between the value of milk for the two uses was $1.37. The value of milk for butter declined with the prices of other commodities from 1930 to 1932. In March 1933, the value of milk for butter and cheese at 64 cents per hundredweight was only 38.3 per cent of the value during the period 1922 to 1930. The price of class I milk for fluid consumption was $1.28 in March 1933, or 42.1 per cent of the earlier period. Thus the decline in classification value of milk for butter and cheese was slightly greater than milk for fluid use. Nevertheless, the blended price to producers was so low that milk strikes and violence became general.

By November 1934, the classification value of milk for fluid use under price orders of the New York State Division of Milk Control was $2.45 per hundredweight. This was an increase from the March low ($1.28) of 191 per cent. The price of milk for butter and cheese was 98.5 cents per hundredweight, an increase of 154 per cent from the price in March 1933. From 1922-1930, the price of class IV was 54.6 per cent of the price of class I, whereas it was only 40.2 per cent in November 1934. The public regulation of prices to producers was a major factor in the greater in-

crease in the price of milk for fluid use than occurred in the price of milk for butter and cheese.

If it is agreed that the general breakdown in the price structure is largely responsible for the recent public regulation of milk, then one might well question the need for such public regulation after prices have come into adjustment. Since nearly all of the federal and state legislation has been of an emergency or temporary nature, it might be concluded that the legislation was planned for the specific purpose of meeting an emergency, and bringing about an adjustment more quickly than otherwise might have occurred. If this maladjustment in prices were the chief reason for such legislation, why was not similar legislation passed and made effective for agricultural commodities other than milk? It appears to the writer that there are characteristics in the marketing of milk which clearly indicate the possibility of public regulation of the industry for some time after the prices become adjusted.

The experience of nearly two years in some markets clearly indicates that changes in public regulation must and will be made. The fact that public agencies have found great difficulty in maintaining and enforcing an established schedule of resale prices, that some agencies have had adverse court decisions, and that many specific prices have been established without due consideration for their relationship to the prices of surplus and competing products does not necessarily mean that the industry will shed public regulation in the near future. Furthermore, under public regulation there has been little, if any, tendency for the growth of cooperative associations, and an enlargement of their powers and responsibilities. Without such a development, producers individually who have small bargaining advantage with distributors are likely to insist, at least for the immediate future, upon a continuation of public regulation.

Public agencies recognize more definitely than formerly the desirability of having a strong producer organization to cooperate with the enforcement agencies in the market. "Prohibitions" of various kinds are not popular with American people. Regulation of milk marketing to prevent destructive price cutting, and to establish uniform prices to distributors and equitable prices to producers, is a program which calls for the support of distributors and producers. Such public regulation with the support and assistance of the industry provides several advantages in the handling of fluid milk. These include a more adequate representation of the producer in negotiating for the price to be paid

for milk, the establishment of a carefully laid out program for gradual improvement of sanitary conditions of mutual interest to the consumer, distributor, and producer, and the development and continuance of a price structure which will maintain a dairy industry and thus assure an adequate supply of milk at all times, and which will consider the requirements of consumers and their ability to pay. One of the chief disadvantages of public regulation is the inflexibility of the price structure and the difficulty in promptly getting a change in regulations when economic conditions justify such a change.

In the opinion of the writer, although many changes are sure to be made in both the policies and activities of public control agencies, some public regulation of milk marketing is likely to continue in many markets for some time. At present there appears to be no general willingness to abandon public regulation. Neither do there appear to be any private agencies with marketing plans that seem adequate to handle milkshed-wide problems in the marketing of fluid milk. Perhaps the most successful public regulation will be in those markets where well organized groups of producers have responsibility in an advisory capacity for the effectiveness of such public control.

THE OUTLOOK FOR FUTURE DEVELOPMENTS IN MILK CONTROL[1]

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The theoretical question of whether or not the distribution of milk is a service affected with public interest is in my opinion a minor consideration in pre-visioning the future of milk control measures. While there may be considerable academic value in critically analysing our problem from the angle of public utility theory, I suspect that in actual practice control will continue as long as it works.

With this pragmatic viewpoint in mind, I propose to discuss in a general way the strength and weakness of control in order to judge its usefulness. Milk lends itself to control simply because the marketing machinery is, relatively speaking, very delicate and when for any reason it gets out of adjustment the results are often disastrous. There is then an inherent need to provide stability through some form of control and I am unaware that the fundamental structure of the milk market has recently undergone any change that would insure against recurring breakdowns if regulations were removed.

In considering the supply side of the milk situation two opposing tendencies may be observed which will no doubt influence the future of control. The "market" supply of fluid milk is probably the most inelastic of all commodities. The producer is, therefore, placed in a very vulnerable position. Producers' organizations were developed to overcome this weakness and indeed it may be observed that where they operated effectively the need for outside control was not so urgent. In most milksheds, however, the producer continues to be a weak seller and the protection afforded by administrative measures has been too real to be readily removed.

On the other hand, the supply of milk over "long periods" is relatively elastic and where adequate sanitary milk regulations are absent the supply is very elastic. Prices paid to producers under control, in all instances that I am aware of, are above the general price level for farm commodities; and the index of retail milk prices is above the cost of living index. In other words, milk producers are being sheltered and as a result the surplus problem is again becoming acute. I have not discerned, as yet, any

[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 28, 1934.

way by which control boards can resist the pressure of these economic forces.

Producers as a rule desire fixed prices, but they hardly ever like any fixed price. It is, therefore, very probable that, if and when other prices rise, producers will ask for de-control. Control boards faced with the statistical evidence of increasing supplies, relatively low butter and cheese prices, and the continued need for low-priced relief milk in distressed urban areas may be too cautious to suit the applicants for an increase. In which case producers may feel that a strong organization practising market exclusion under open competition will be better suited for their purposes.

In some areas, however, control has eliminated such glaring abuses that it is doubtful if market regulations will be completely removed. For example, in many markets the practice of selling milk as a loss leader in chain stores has been prohibited. If a return to free competition means a resumption of this iniquitous business, both distributors and producers will be loath to see it happen.

Another factor making for continuance is the value of the market information which has been compiled under regulation and may or can be collected only by an independent body. In the Winnipeg market we now know that the increase in prices affected by the Public Utility Board did not decrease the quantity demanded. When the plan was inaugurated opponents of control said that demand would fall off, but with the facts before us there is no room for argument.

The influence which distributors may exercise on the future of control is difficult to estimate. Their influence openly will, in my opinion, be slight. They have been none too happy under the circumstances but I can say that in Canada they have tried to play the game fairly under the new rules. Control has helped them inasmuch as price wars have stopped; but the public and the producers, as is the case in most market investigations, have been blaming the distributing system for all our milk troubles and pointing a questioning finger at the spread. As a result, the spread has been fixed in many cases so low that it is reasonable to doubt if one-half of the milk companies are making a reasonable profit.

The immediate future of milk control will be conditioned by either the continuance or gradual disappearance of the so-called emergency conditions. These conditions were to a large degree psychological and not economic, and as such may be said to have disappeared when the state of mind in the market has changed.

In other words, both distributors and producers may have learned that ruinous competition is just what the term implies. There is then some validity to the concept that milk control is only a temporary discipline. Where control is vested in a province or state rather than in the Federal Government there will probably be a tendency to remove restrictive measures. If this assumption is sound, we may soon experience a period of unrest in the milk market during which we shall be groping for methods to modify control. It is, therefore, worth while to consider ways and means of modification this and the following may be suggestive. First: the practice of selling milk as a loss leader must still be prohibited. Second: the compilation of market information by an independent person or body should be continued. Third: some one should be officially designated to attend all meetings between organized producers and distributors. This will mean disbanding the Control Board as it now exists and substituting one official in an appropriate department of the Government. Despite the arguments in favor of it there will most likely be a withdrawal from the complete supervision and enforcement of all milk prices, and instead a refocusing on prices paid producers. If we are not sufficiently chastened by our experience in milk wars and control the above modifications will not work. There is reason to believe, however, that the most vile evils can be eliminated by mere permissive control and that, through the witness of reliable market information, prices arrived at by collective bargaining in this manner will be a truer reflection of market value, and a much paler reflection of monopoly either by producer or distributor. Incidentally, I expect that in the future the milk distribution business, because of our recent experiences, will not be so attractive to ambitious financiers. But this may be just a pious hope.

Broadly speaking, our recent experiments in milk control have been successful. Far more successful than the results of previous "milk commissions" would give us reason to hope for. Conditions demanded emergency action, not recommendations, and while mistakes were made few of us were sanguine enough to expect perfection. Where state or provincial regulations were in operation; where enforcement was immediate and adequate; where prices were regulated all along the line; significant results followed. It may be agreed that any or all of these provisions are fundamentally unsound or legally and technically impossible. I contend, however, that where control operated in a crisis that the omission of any of them was fatal to success.

The errors may be considered as informative rather than as

condemnative. Producers' Associations have not been destroyed as some feared would happen. Indeed, I hope and trust they have gained experience that will make for permanent strength. Many of them were merely organized bodies of discontent. There is no basis for permanency in this motive. I sense the fact, and it is being tangibly revealed, that the narrow parochialism of many of our dairymen's associations has been broken down by the widespread movement for control. Control will always be at a minimum where a producers' association is so technically efficient as to insure stability of supply and high quality of product.

And finally, if in the future distributors consider milk agreements only binding as long as they wish to be bound by them or if, as is too often the case, some distributors refuse to bargain at all, it is quite possible that our concept of collective bargaining for milk prices will have to be tangibly strengthened. Recent decisions by your National Labor Relations Board point very clearly towards a more definite, objective, enforceable definition of collective bargaining. It is quite conceivable that future milk control statutes will provide that organized producers and distributors must make and maintain for certain periods of time collective agreements, or if you will, bi-lateral contracts and that the device of control will operate solely for the purpose of ratifying or amending such agreements when it seems necessary to do so in the public interests.

COOPERATIVES THE PACE-SETTERS IN AGRICULTURE[1]

H. E. BABCOCK
G.L.F. EXCHANGE, ITHACA, N.Y.

My conception of a farmer-owned, farmer-controlled cooperative is probably a bit different from yours. I bring this fact out right at the beginning of this discussion so that you may understand my point of view. Please note that I do not ask you to agree with me or to accept my philosophy.

I regard a farmer-owned, farmer-controlled cooperative as a legal, practical means by which a group of self-selected, selfish capitalists seek to improve their individual economic positions in a competitive society.

Personally I do not believe for any long pull in those types of cooperative which depend upon contracts for membership support, which so operate that they tend to level off the individual positions of members or which sacrifice the welfare of the membership to the interests of those who remain on the outside. Apply these tests to the cooperatives you know and you will find that they take in a great deal of territory.

When you and I are honest with ourselves and each other, we both must admit that the only neighbor or associate we ourselves are ever at all anxious to cooperate with, is the one who can help us advance toward some particular objective which seems desirable to us. This, then in my judgment, becomes the one safe formula by which the members of a cooperative may determine the membership in the organization.

Contracts Not Necessary

If sufficient opportunities for selfish advancement exist, members will join a cooperative voluntarily and stay with it. If they do not, membership contracts will not hold them. Here I draw a distinction between membership agreements, which can be voluntarily entered into and voluntarily cancelled, and business contracts covering the delivery of goods.

In addition, membership contracts are expensive to secure and administer. They create a false feeling of security on the part of the management and they are contrary to the very spirit of cooperation. Personally, I would like to see all worth-while farmer cooperatives cancel their membership contracts and turn all their equipment for keeping account of them to the AAA.

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[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 27, 1934.

The whole membership contract idea came into the field of cooperative endeavor because of an economic fallacy—an idea that in a free cooperative society, it might be possible to tie up and control the production and marketing of whole crops. This was the main idea back of the so-called "Sapiro Movement" and it had further test under Hoover's Federal Farm Board. Now, the AAA has taken up both the idea and the method. So far as I am concerned, it is welcome to both.

Summarizing; *my ideal "farmer-owned, farmer-controlled cooperative" has a voluntary membership which has come together to deal with society as it is (rather than to reform it) on the basis of mean, narrow selfish interest.* Not a pretty picture, is it? But it is the only sure basis upon which I can depend upon your cooperation with me in business. So, why not recognize the fact?

Perfectly Legal

Fortunately, the same laws which have granted farmers the legal right to employ cooperative corporations to win grand objectives, to force membership and to service social reform, also give them the right to set up narrow, mean, selfish, but immensely practical little enterprises. Therefore, there is no bar in the law to the sort of farmer-owned, farmer-controlled cooperative I like.

A farmer-owned farmer-controlled cooperative based on a membership tied together by selfish interest can be as stable as any corporation. It occupies a perfectly legal position in society and best of all it honestly declares its objectives to the world. Free from mandate to reform society or, to save the world," it can buckle down to such commonplace, but immensely important questions as to whether or not to ship in bulk or packages, when to store or not to store and the interest rate on the money it borrows.

Again summarizing; *My ideal farmer-owned, former-controlled cooperative is a means of practically stimulating competition in a highly competitive society. It deals with first things first and as it finds them. It leaves big things until it gets around to them. With all it is a legal, honest and honorable enterprise.* To you it may seem mean and narrow and short-sighted. To me it is like a breath of fresh, cool air after the hot winds which have swept the fields of cooperative endeavor and pretty well dried them up.

Management

A farmer-owned, farmer-controlled cooperative of the kind I have described as my ideal, automatically sets the stage for good

management. In the first place, the members are in it for a purpose which they understand and appreciate. They came in voluntarily, they expect to profit from their association with each other and they know perfectly well what they want to do to so profit. This brings management squarely up against the job of producing results for the membership as rapidly as possible. If results are secured, the membership is pleased and sticks. If they aren't, it liquidates and there is no more cooperative. What could be simpler? Would that it were possible as easily to liquidate many of our cooperatives, which either never were useful or have entirely outlived their usefulness.

Under a plan of cooperative membership in which members come in and leave voluntarily, management has no choice but to tackle the first things which look as though they might yield advantages for the individual members of the cooperative. This in itself is a big factor in keeping cooperative endeavor down out of the clouds. It also keeps cooperatives from biting off more than they can chew, and nine times out of ten it underwrites step by step, success.

Not the Objective

One point which my ideal farmer-owned, farmer-controlled cooperative will always bear in mind is that the cooperative is not an end in itself, but the means to an end. *The real end is the improvement of the economic positions of the individual members, without leveling them off or averaging them down.*

When we come to the time when we measure the success of farmer-owned, farmer-controlled cooperatives by the service they have rendered their individual members, we will be forced to adopt an entirely new philosophy in contrast to that which has governed our thinking about cooperatives during the last fifteen years.

Then you will be forced, as I have been by experience, to recognize that cooperative monopolies may be bad things for individual farmers because they remove the competitive challenge to management. Also, that it is not possible for cooperatives to corral all the brains there are in the particular field in which they operate and that an injustice would result if the brains which are outside the cooperative field, were shut off from serving the individual farmer.

Recognizing the above facts, we will be forced as a matter of common sense to build up each step in cooperative service as a good general would campaign an army. We will always keep our cooperatives flexible and in a position to retreat in an orderly

and painless manner from a field of service when some other agency can better perform that service.

In short, we will come to look upon the farmer-owned, farmer-controlled cooperative as a means by which farmers may either (1) perform service for themselves and in their selfish interest, or (2) so set the pace for other agencies that they will be stimulated to render better and better service. Given this situation both as a farmer and as a member of a cooperative, I am perfectly willing to let the best man eventually do the job.

COOPERATIVE BUYING OF FARM SUPPLIES[1]

Quentin Reynolds
Eastern States Farmers' Exchange, Springfield, Mass.

Since coming in close touch with cooperative purchasing of farm supplies, I have been with the Eastern States Farmers' Exchange and have had no opportunity to study the operation of other associations. I assume that if you had wanted a general discussion of this question, you would have turned to an economist well versed in the theory of the work and familiar with the operation of many purchasing associations. I am assuming, therefore, that you want from me an outline of the development of cooperative purchasing by farmers in the Eastern States Farmers' Exchange.

Contrary to the theory of consumer cooperation, the Eastern States grew from the top down and not from the bottom up. The need was recognized by community-minded leaders in many walks of economic and social life—farmers, manufacturers, bankers, merchants, ministers, and professors. They procured the charter, drew up the by-laws, set up the board of directors, supplied the credit, served on the board, selected the manager, helped select the personnel of the modest staff, and thus provided a service which rested its hope of success on the service it performed. There was no other farm organization sponsoring the Eastern States either to provide its members with something they needed which it did not offer them or to win new members or hold old ones or to secure revenue with which to carry on activities then existent. It stood alone and on the service rendered appeal it won loyal members and firm friends among the sort of farmers and their friends who are the life blood of other farmer organizations and farmer movements. Individual farmers are themselves members of the Eastern States Farmers' Exchange. It is not a federation. There are no dues. There is no capital stock. The farmer becomes a member of the Eastern States by virtue of his purchase of commodities through it and remains a member for the two calendar years following the date of his last purchase.

As the annual meetings rolled around, farmers replaced the manufacturers and bankers on the board as the farmer members gained experience in operating successfully the rapidly growing business venture. The men who composed the original board were very busy pople. They could ill afford to take as much

[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 27, 1934.

time as they did to launch and steer the non-profit patron-owned association. The members who attended the annual meetings were guided very largely by the suggestions of these men in the evolution of the board to one of farmers from one of men trained successfully in the school of soundly operated big business. The members recognized that their Exchange was a means to an end and not an end in itself. They liked the service it was providing. They could have taken over the directorate earlier but they realized that they had more to gain by having their service agency built surely than by trying to run it before they had gained adequate experience with such an enterprise. Today only one man whose major interest is other than farming remains of that original board, Horace A. Moses, whom some of you know for the nation wide work he has done in the support of the 4H Club movement. It also includes a former general manager, John D. Zink, now a manufacturer associated with Mr. Moses. The other 46 members of the board are farmers.

The directors are elected at the annual meeting in Springfield in a rather interesting way. A third of the board is elected each year. Effort is made to keep the directors divided in approximately the same proportion by states as are the members. The nominating committee selected by nine state caucuses receives a report on the membership distribution from a committee of the board and also a list of men whom that committee feels after investigation are qualified to carry out their responsibilities effectively in the interest of the membership and who further have indicated that if elected they will do so and are interested in doing so. The nominating committee usually follows the suggestions of the committee from the board, but it occasionally makes revisions. When the nominating committee reports, members have the right to make nominations from the floor, but they seldom do so. Indeed they can ignore the report of the nominating committee. If they were not satisfied with the way in which their association's affairs were being conducted, they most certainly would do something of the sort at an annual meeting. Their approval of the nominating committee report year after year therefore is not evidence that members do not participate in the election of directors. Like the steadily growing patronage, it is evidence that they like the way their association is functioning. They do not propose to dump the apple cart just to show that they are IT at the annual meeting.

The Eastern States Farmers' Exchange was started in 1918 in order that farmers might purchase at wholesale the raw ma-

terials which they use to make the milk, eggs, crops, etc., which they sell at wholesale. The emphasis was placed at first on the opportunities in collective action for saving in prices and in distribution costs. Savings proved to be obtainable but they were secured primarily by eliminating many of the steps in distribution which cost farmers more than they were worth. Village storage of feed, seed, and fertilizer, merchant credit, and delivery, including l.c.l. shipment charges on feed and fertilizer were among the practices eliminated.

The old line dealers gradually found that their best customers, the cash buyers and those who paid their bills regularly, were accepting the opportunities to save by the simpler program of the cooperative. They adjusted their price schedules in the hope that by so doing they would kill the movement. But during the years that this change had developed, the members found that pooling of orders gave them a volume which enabled them to perform a selective buying service at low cost per unit of commodity handled as well as to lower distribution costs. They found that in competitive markets the per ton price of a dairy ration was less important than the ton's capacity for milk production and that their cooperative was getting the extra capacity into their feeds for them. They found that clover seed their cooperative selected to meet the particular conditions of their farms and which might cost as much as two dollars a bushel more than the clover they had been buying, produced the sort of crops their fathers used to describe while the grade previously available produced under ordinary conditions only half such a crop. And they found that those capable of producing the more satisfactory quality were eager to find outlets like the Exchange which were ready to take quality at prices in line with the cost of maintaining quality standards.

Herd improvement records and egg record sheets showed the economy of relying on Eastern States as the source for feeds as did the premiums broilers brought in the markets where poultrymen trucked crates of bird for one another. The field seeds stood the test which farmers gave them in their fields as did the fertilizers. And so in spite of severe competition, demand for services has grown from 1918 until this year we shall provide more than 50,000 members with more than 300,000 tons of supplies for which they will pay through their Exchange more than $12,000,000. This tonnage will consist of approximately 280,000 tons of feed, 21,000 tons of fertilizer, 5,000 tons of lime, 4,000,000 pounds of field seed, 100,000 bushels of certified seed potatoes, and vegetable seed

and some miscellaneous supplies. In the 17 years of its life, 1932 was the only year which fell behind the previous year in volume of supplies purchased for members, and that year the loss amounted to five tenths of one per cent.

An important reason for the success of the Exchange is that it has always recognized the fact that it is a service agency. Volume has been viewed as an index and not as an end. As a non-stock association, members have remained loyal because of the value of services performed. Your town is a non-stock cooperative enterprise, but you cannot avoid supporting its service agencies. You might move to another town but you would then have to support its service agencies. We have no such hold on the members for whom we work. They can turn to other sources of supply the moment they become dissatisfied with the service we offer them. The farmers we number among our members are the cash buyers, the men whose trade is sought aggresively, and they go where they find their money buys most. The fact that they have money or bank credit which gives them money to use shows that they have the habit of spending wisely. Keeping such farmers satisfied requires constant checking up of the service plant and of the commodities which go into it lest the wrong sort go out.

Although such a cooperative association as the Eastern States Farmers' Exchange is subject to some of the weaknesses which beset service agencies of government, it is potentially a more effective instrument than is the government agency. If the cooperative is to survive, its services must justify their cost. The cooperative does not have tax funds available with which to subsidize or finance its mistakes. Its faults are more easily detected. They are more easily corrected. Therefore the interests of the consumer are more easily protected.

The Eastern States Farmers' Exchange has followed the practice of buying supplies for cash. In this way, it has avoided being under obligation to any producer of supplies. It has bought the supplies best suited to members' needs on economical terms.

The directors of the Eastern States Farmers' Exchange have always retained the responsibilty for the policies of the Exchange. Through their executive committee they have developed policies calculated to maintain the service motive just suggested as an important reason for the success of the enterprise and have placed the responsibility of administration squarely in the control of the management. The fact that no Eastern States director is on the paid staff of the organization has helped materially in the establishment and the maintenance of sound, effective service

to members. No director is in the incongruous position of hiring himself. Responsibilities are clean cut. The directors are responsible to the membership, the executive committee to the directors, and the management to the executive committee.

Established practice helps keep out of the Eastern States Farmers' Exchange affairs evils which have caused such havoc with our corporations. The Eastern States Farmers' Exchange director is in fact a trustee and recognizes his responsibility to the farmer member of the Exchange. In too many corporations the director has regarded his position as an opportunity to profit personally rather than as a position of responsibility to the stockholders he represents.

Another equally important tradition has developed in the administration of the Exchange's affairs. No member of the paid staff has allowed himself to become or be financially interested in any of the concerns from which the Exchange purchases either supplies or services. Had this rather elementary but sound rule of conduct been in effect in the operation of our banks and corporations prior to 1929, most of the mismanagement which shocked the public and well-nigh broke its confidence in our economic system would never have occurred. The judgment of the best administrator is out of balance when he can be materially affected personally by decisions he must make in his official capacity.

Experience has proved to us the advisability of not basing the pay of executives on volume of distribution. When pay and volume go up and down together, greater volume tends to become an aim in itself to those responsible for service to consumer members. We find that the executives who fit successfully into the cooperative team are the sort you want to row with in an eight-oared shell, fight with shoulder to shoulder on the line of scrimmage, or have carry on where you stop in the relay race. They give their all. The coach who is worthy of his trust can pick them out. They deserve their pay or letter whether they win a particular game or lose it.

In operating the Eastern States Farmers' Exchange the management has been backed up 100 per cent by the directors when taking important steps which though daring were definitely in the interest of the membership. Such support helps develop a truly significant service.

By 1925 the Eastern States had developed a substanial feed business. It was purchasing for its members more feed than most feed manufacturers could take on and continue to serve their other customers. The situation was growing critical. Those who

gave the matter careful consideration feared that the Exchange was drifting into the position of being a sales outlet for a particular feed manufacturer. That spring the manufacturer actually presented the management a three-year contract which would have accomplished this result.

Instead of approving the contract or offering a compromise, the management and executive committee went into a huddle. To make a long story short, they decided that the Exhange volume would support the economical operation of a feed plant. Two of the directors agreed to be responsible for the cash which would be required to buy a satisfactory property. The banks with whom the Exchange was in contact agreed to support the project and with loans on inventory and in other ways bolster up its meager capital. The directors approved the plan, and the Exchange went into manufacturing feed. From that day the quality program took on new significance. The Exchange now had direct control of its purchase and formula work. Another farmer cooperative was demontrating that through collective action farmers can conduct service agencies in a sound business way in the interest of the farmers. Had the Exchange failed to act as it did at that time, it might have found itself in much the same position in which milk bargaining associations have placed themselves by becoming dependent on a few large distributors for the outlet of their members' milk.

On another occasion, the producer of an important dairy feed ingredient wrote the Exchange suggesting that unless we increased the percentage of that particular ingredient that company might find it necessary to cut off our supply. That seemed like a serious threat, but we knew that if we were to continue to build formulas independently guided solely by the interest of the membership, that bluff would have to be called. Several telephone calls into the Mississippi valley resulted in securing enough of that particular ingredient from a number of smaller manufacturers to assure our supply for a year. We replied to the suggested threat promptly stating our appreciation of the warning of the possibility of a shortage and assuring the writer that we had made arrangements to take care of our members' needs from other sources. Incidentally, we are on cordial terms with that manufacturer. He respects our courage, recognizes the soundness of our policies, and sees in us an economical and dependable outlet for greater and greater quantities of his products.

We have many evidences that "big business" is interested in working with our organization since it has come to realize that

the type of service we perform induces growing and steady consumption of the commodities and services "big business" offers consumers. We have demonstrated that services and commodities designed to serve the interest of the consumer are in greater demand during this critical period of readjustment than services and commodities designed primarily to supply profits to the vendor. We get along famously with banks, railroads, and manufacturers, and we do it not by compromising the interests of our members but by asserting them constructively.

Faith and idealism have played their part in the development of the Eastern States Farmers' Exchange, but they have used as their vehicle sound, proved, progressive business principles.

The feed plant at Buffalo has become a large project equipped with machinery adapted to our needs. We have this year been putting out more than 1200 ton of feed a day, 85 per cent in manufactured rations for livestock and poultry, and shipping some 40 cars a day for distribution to the membership chiefly at the car door. The plant includes a laboratory in which all incoming commodities are sampled before they are accepted, and mixtures are tested to see that they meet our requirements. In divisions of this same laboratory our seed is tested as are samples of all fertilizer mixtures submitted by our factories at Boston, Massachusetts, and Wilmington, Delaware.

Note that from our experience with the manufacture of feed, our members recognized the advantages of getting control of more of the processing of the supplies they purchase collectively.

At Buffalo we have a seed warehouse equipped to clean and store field seeds. Grain and large seeded legumes are grown on contract now on more than one thousand acres annually from seed selected by our staff or under its supervision and in cooperation with the crop improvement agencies of various states. Grass and small seeded legume seeds are selected in the region where they are produced. Satisfactory inoculant is included in the price of legume seed and shipped with every package. Oftentimes the seed costs more per unit of purchase, but members have developed a confidence in the seed and recognized the service back of the final delivery. More and more of them are coming to consider the Exchange as their purchasing department.

We are digging into the vital factors of seed potato production. We employ one of the most promising potato pathologists in the country. He helps the growers care for the fields which pass state certification so as to put the potatoes we purchase for members at the top of the grade, and helps them improve and maintain

digging, shortage and shipping practices. He is carrying on tuber unit index work in Florida this winter so that in 1935 we can produce superior foundation seed for certified seed growers for 1936 planting to provide the seed which we want for our table stock growers for 1937 planting.

In fertilizers we have accomplished valuable results for our members. In ten years we have induced our members to double the average concentration of plant nutrients in the fertilizer they purchase through their Exchange. In 1934 more than 60 per cent of total plant nutrients distributed in mixed goods went out in the high analysis, or "double strength," mixtures. This form of fertilizer reduces sharply the per ton cost of nutrients. Our fertilizer program supplies the cash crop and market garden needs of the membership and is supplying dairymen with the nutrients which must be returned to their meadows and pastures following the decades of depletion when grass was supposed to be a gift of God. While we supply only a small fraction of the fertilizer used in the territory we serve, we probably supply as much fertilizer for pastures as do all the other fertilizer producers combined. The quantity of fertilizer used for this purpose is small per farm and did not appear to be worthy of the commercial producers' interest. It is worth a great deal to the farmers themselves, and as their service agency, we have devoted a lot of time to making it as effective as possible. Now that our activities have helped colleges and extension men win farmers to the practice of feeding sod adequately, the possible volume is attracting the attention of producers.

Our fertilizer formulas are based on information generally available and on extensive soil testing we conduct ourselves. They are mixed in our own plants where the proper mechanical condition can be developed through control in curing.

Our most recent venture is with vegetable seed. In this field we expect to do much. Our program is regarded as very promising by market gardeners and is under the supervision of one of the best informed students of the problems of growing and improving strains of the various sorts of vegetable seed our farmer members need. This division of the service bids fair to take on large proportions within a few years.

The Eastern States Farmers' Exchange from the start has always built into its program the information which the agronomists, nutrition experts and others in the experiment stations and elsewhere assemble. As it has gained strength, it has supplemented such information with the facts its members have de-

veloped from actual experience with these programs. This cooperation with various agencies takes many forms including the establishment and the maintainance of fellowships to assist experiment stations to dig into problems the answer to which have value to farmers in general as well as to the Exchange members in particular.

To secure proper recognition of its various quality services, great pains have been taken to acquaint the Exchange's membership with the significance of the work being done in its behalf. In the first place, direct contact is maintained between the members and the central Exchange through field men who have had training and experience similar to that of the best county agents. In the next place, most of the local representation is in the hands of farmers who themselves use the services on their own farms, and nearly all other local representatives are local farmers' exchanges. Through such agencies it is easier to hold value to the producer always in the foreground. Through outlets interested in the profit from the sale of commodities, it is next to impossible to do so. Our representatives think of the significance of the product in terms of what a dollar's worth will do on the member's farm. The ordinary outlets think of the value of the product in terms of its selling price and the income derived from the sale. Competition forces such outlets to meet competition with that point of view by trying to beat it at its own game. The cooperative can keep itself in a different position if it will constantly put value into every dollar's worth of commodity it buys for its member patrons.

The local representatives and field men are supported with a monthly publication, and with meetings at which those in charge of the various services discuss intimately the ways in which the Exchange is striving to solve the various problems connected with the services.

I know of no better way to drive home the significance of the acceptance of Eastern States service by the better farmers in the sections served than to point out during the year just drawing to a close that there is scarcely a point at which Eastern States service is available at which commodities "just as good" have not been offered at prices under those which the Exchange has had to charge for feed, fertilizer, seed, etc. Yet, although the general consumption of purchased feed is admittedly reduced, the Exchange volume has gone ahead; although approximately the same quantity of fertilizer has been used, the consumption of plant nutrients in Exchange fertilizer has doubled; although no

more field seed has been used, and less Exchange seed is used per acre than is common, Exchange field seed volume has gained 21 per cent.

As suggested early in this paper, the Exchange started operations on capital supplied by the credit loaned by its founders. Within five years, the capital accumulated by the Exchange and the credit reputation established with commercial banks and the Federal Intermediate Credit Bank enabled it to carry on without that aid in spite of the heavy demands on capital made by the rapidity of the expansion of demand for service. Today the Exchange's equity in plants, inventory, cash, etc., is more than a million and a half. Since 1926, the Exchange has distributed two-thirds of the net savings each year in the form of patronage dividends. The total of such dividends amounts to $557,000 through 1933. The dividend on 1934 patronage though not yet figured will approximate $90,000.

From our experience, I think we can safely say that farmers will support a cooperative purchasing association which provides a purchasing service comparable with that offered by the purchasing departments of our most effectively operated corporations; that such a service can be operated at costs which will return farmers a saving commensurate with the effort expended; that farmers can operate service agencies provided they avoid the same pitfalls which others must avoid to operate agencies providing similar services.

FINANCING COOPERATIVES[1]

J. E. Wells, Jr.

Farm Credit Administration

The financing of cooperative marketing and purchasing associations requires furnishing funds for three balance sheet categories, which are asset, liability, and net worth accounts.

Financing of Asset Accounts

The financing of the various asset accounts of a cooperative usually falls into one of two types, namely, current financing and long-time financing.

A cooperative to operate properly must have owned working capital—which is the difference between current assets and current liabilities—of a sufficient amount to complete the cash cycle of its current operations. This cash cycle assumes beginning with a certain amount of cash, obtaining commodities and services and converting them into various other items charactertistic of the business, and at the end of the operating period converting all of these goods and services back into cash.

Long-time financing involves the purchase and acquisition of physical facilities, investment in subsidiaries or other marketing or purchasng agencies, and payment for services which may be used at some future time. The use of fixed assets usually extend beyond one year or the seasonal operating cycle of the business.

Financing Current Operations

Current financing of cooperatives varies considerably with the type of commodity being handled. In case of a pool operation involving staple commodities, the statement which is frequently made that the commodity itself is the capital of the cooperative is to a degree correct. This type of current financing is frequently handled in such a way that a sufficient sum is obtained from a lending agency to make not only a primary advance to the producer but also to obtain sufficient funds to care for operating expenses and carrying charges. A smaller number of cooperative marketing and purchasing associations, however, operate on a long-time seasonal pool basis than six or ten years ago. The type of current operating financing which most cooperative purchasing and marketing associations are confronted with today is the same type of current financing which is characteristic of most merchandising business enterprises handling similar com-

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[1] This paper was read at the Twenty-fifth Annual Meeting of the American Farm Economic Association, Chicago, December 27, 1934.

modities. This involves financing on commodity collateral in so far as possible, but realizing that in addition to the commodity and facility or fixed asset collateral, some loans must be made on practically an unsecured basis. Therefore, careful scrutiny of the balance sheet, operating policies, and business management of the organization is essential in order to appraise properly the credit risk. It is necessary to know that the enterprise has sufficient owned working capital, that its merchandising policies are sound, that its legal structure is correct, and that the management is capable with a good record of past operating experience.

A cooperative whose balance sheet shows a large amount of owned working capital in proportion to volume of business, current liabilities, and maximum operating capital needs should be one of the best business risks. Frequently, however, it is very difficult to find sufficient tangible collateral, such as warehouse receipts, bills of lading, and other evidences of title to commodities, which can be used as collateral for the entire amount of financing required by the cooperative. It is true that a cooperative association especially if the commodity it is handling is hedged may be able to borrow from 85 to 90 per cent of the value of the collateral. But in large organizations this is not sufficient to furnish the association with all the operating capital that it needs. Additional funds are required for maintaining cash balances in banks and margin requirements, for the payment of storage, insurance, interest, operating expenses and possibly for processing, open accounts, draft float, and merchandising requirements which must be met before the commodity is ready for sale or before the sales proceeds are available to the association.

If an association has working capital of its own equal to one-fourth of its normal total current liabilities and if it is properly and soundly managed it should be a good credit risk. This does not mean that it would be wise to loan three-fourths of the total amount of dollar value of current operation assets on an entirely unsecured basis. It usually means, however, in actual operations that the amount that is loaned on an unsecured basis does not exceed the amount of working capital owned by the association.

Warehouse receipt financing is the simplest type of operating capital financing and I am sure you are all familiar with the usual loan agreement, custodian, and collateral requirements. The percentage that may be loaned on a given commodity, however, especially if it is unhedged, varies with a number of factors. In a brief analysis that was made some years ago, it was ascer-

tained that over a period of over some twenty-five years of price experience, in order to be absolutely safe under any circumstances, the advance should not exceed about 35 per cent of the market value of the commodity. Experience also indicates, however, that a 90 per cent advance on a commodity at the low point of a price cycle is a much safer loan than a 50 per cent advance on the same commodity at the peak of prices.

The merchandising turn-over of the commodity being financed, in commodities such as butter, eggs, poultry, and most grains, where there is a ready market at nearly any time, as compared with mohair and certain types of tobacco where the time element of merchandising is indefinite, presents distinct problems in ascertaining the percentage of advance which may be considered safe. In the former category, where the turnover period is from 30 days to a few months, the advance may be higher. In the latter, however, it may require from one to four years to dispose of the entire amount of the deliveries of a single crop, and during that time the commodity itself may deteriorate even under the best possible storage conditions and variations may occur in the supply and demand for the commodity during a long period of time. These factors make it necessary to vary the per cent of advance considerably between commodities and to use a different per cent of advance on the same commodity at different times. Some associations, of course, handling a large volume of business, have started with very inadequate working capital and in order to finance these organizations in a limited way, it has been necessary to devise various types of agreements in order to give the lending banks the greatest possible amount of security.

Several associations have large investments in fixed assets which frequently are available for pledging for operating capital loans, and the funds from loans so secured may be used to replace working capital which was used for the purchase or acquisition of fixed assets.

Some associations do not desire to own facilities but desire instead to keep all assets as current as possible and restrict their accounts entirely to the current asset, current liability and net worth items. In such cases, especially if the turn-over is very rapid, it is practically impossible to obtain tangible collateral; so in order to obtain the greatest amount of protection, loan agreements covering such operating capital loans usually require specific conditions in regard to management, maintenance of current asset relationships to current liabilities, merchandising policies and other important business factors. In some cases trustee ar-

rangements are used, whereby the association has access to and use of the assets and avails of the loan through a custodian. These loans involve very careful follow-up and analysis, because operating losses immediately impair working capital and hence the loan is impaired. The four major causes for depleting working capital, which are usually the cause of most failures, must be constantly guarded against, namely, changes in public demand for the commodity, competition, depletion of working capital by payments of dividends or payment of net worth accounts, and too rapid expansion.

Fixed Asset Financing

The usual procedure for financing the acquisition or purchase of physical facilities involves the mortgaging of the property to the lender. The principles involved, however, in determining whether the properties should be acquired by the cooperative association, and a loan made for that purpose, and the terms of the mortgage including the method of payment are vital considerations.

One cooperative manager who has had a great deal of experience in assisting associations to purchase fixed assets has stated that cooperatives should not purchase their own facilities until they become of age. It may become very embarrassing if a large amount of growers' capital becomes tied up in useless facilities or if it is necessary to continue to take retains from producers for the payment of a debt due for the acquisition of property of doubtful utility.

It is imperative, of course, for the cooperative's management and directors to weigh carefully all possible factors before purchasing or acquiring facilities.

In analyzing an application for a facility loan, the usual procedure of analysis as to the legal structure, membership, operating experience and mechanics, merchandising policies, management and financial policies is followed, but, in addition, the purchase contracts are scrutinized or the building contract is carefully analyzed as to the reasonableness of cost, and, of course, if the building is being purchased after construction, a careful appraisal is made by competent engineers to determine its sound market value. An economic study is also made to determine the use value. These factors are then all weighed in the light of the association's ability to repay the loan.

No facilities should be acquired until the exact method of payment is known. Owned working capital should not be used unless

it is positive that sufficient working capital will still remain in the business to care adequately for the normal or expanded needs of the cooperative association or that sufficient funds can be borrowed by it on the fixed assets to replenish its working capital.

The time of maturity of the mortgage, its rate of interest, and repayments of principal, should be so devised that the association, even during times of depression, can meet the payments without being required to make too large retains from the sales proceeds of commodities handled by the association. It is not safe to anticipate the payment of debt secured by facilities from profits; definite retains should be made. This is difficult in purchasing associations, but in these cases it is essential to know that sufficient margin of savings exists to assure the payment of the debt with reasonable ease.

Financing of Liabilities

The financing of liabilities includes refinancing existing obligations. These fall into refinancing both current and fixed liabilities. Often it merely involves a change in repayment conditions such as due dates or principal instalments. Changes in security requirements may also be made. This is often the case when the loan is transferred from one lending agency to another. It is desirable if possible when the loan is first consummated to have the original agreements carry through the entire life of the loan, but this seldom happens, especially in loans that are to be repaid over a period of years and it may become necessary to revise agreements both from the point of view of the borrower and the lender in order to meet changed conditions.

Reorganization

Cooperatives sometimes find it necessary to revamp entirely their financial set up and may be faced with practically a complete reorganization. Sometimes the obligations are so pressing or burdensome that proper reorganization necessitates receivership or bankruptcy. For example, one cooperative, in order to correct its liabilities arising out of certificates of indebtedness which had a definite due date and interest rate is converting its certificates of indebtedness into preferred stock under the corporate reorganization amendment to the bankruptcy act. In this case, a large per cent of the producers had signed an agreement consenting to exchange certificates of indebtedness for noncumulative preferred stock. A small group, however, refused to consent to the transfer. The association, therefore, petitioned

the Federal Court and an order was signed by the court permitting the association to call all of the certificates of indebtedness and requiring holders thereof to exchange them for preferred stock.

Another cooperative has a subsidiary that has outstanding a large issue of preferred stock with a cumulative dividend which, during the past five years, has not been paid. It seems necessary to eliminate the liability. In this case, the parent cooperative owns all of the common stock and more than fifty per cent of the preferred stock. The state law under which it is incorporated will permit the cooperative with this stock ownership to eliminate the cumulative dividend, reduce the par value of the stock and to call the stock at the reduced par value, thus eliminating a liability which might have sometime caused considerable embarrassment.

The use of revolving funds for operating or fixed capital requirements of a fixed liability nature, represented by issued certificates of indebtedness to producers or others, with definite due dates and interest rates, have been used by cooperatives for a number of years. Such liabilities are not dangerous so long as conditions are normal. But the best of plans sometimes fail for reasons beyond the control of the best management. Therefore, two safeguards should be provided: first, the amount of the liabilities to be paid at definite due dates should not be so large at any one period as to require a severe depletion of working capital if economic conditions do not permit of the making of adequate retains whether the certificates have a due date or not. Even though no definite due date is named in a certificate, if the payments must be passed, an established practice of making principal and interest payments may be embarrassing from the standpoint of having the producers continue to deliver their products. Second, where possible the certificates should not have a definite due date or interest rate because of the danger of legal proceedings in case of nonpayment.

Net Worth and Capital Accounts

The amount of funds that should be provided by producers for the business, the method of obtaining these funds and the management problems involved in financing a cooperative through net worth accounts depend entirely upon the nature of the business.

Our experience indicates that, except for the smaller cooperatives, which do not require more than $50,000 or $100,000 of owned capital, it is very difficult to obtain from producers within a short

period of time a sufficient amount of capital to meet all its owned working capital and fixed capital requirements. Usually the accretions to capital accounts must come from savings in the operations and retains from sales proceeds which the members of the cooperative permit the organization to retain as capital.

Considerable discussion, especially during the past two or three years, has centered about whether an organization should be a capital stock organization or strictly a membership association whose interests are represented by certificates of interest, or a combination of both. The principles underlying the management of net worth accounts should govern—namely, that the instruments representing capital should not in any way make them liabilities. Even preferred stock, when given a definite cumulative dividend rate may present difficulties if the dividends have been paid for a number of years and then are stopped. We are all familiar with the liability that can arise from certificates of indebtedness with definite due dates and definite interest rates. Certificates of indebtedness, however, may be so drawn that they are not a great deal different from common stock with respect to rights in the corporation's assets in case of dissolution, if the underlying legal structure is properly drawn up.

The capital of the cooperative should be permanent in amount but flexible enough in ownership requirements to permit changes in membership. Various methods have been devised for having the producers acquire a capital interest in cooperative enterprises. They usually involve the ownership by producers of stock or certificates of interest for which payment may be made by paying cash, giving notes, or by crediting the growers' account with retains from sales proceeds, or savings from the business.

Frequently, notes given by producers for the purchase of stock or certificates of interest in cooperatives do not rank as instruments of the highest collectibility. If the business is profitable, little difficulty will be encountered in obtaining payments on stock notes, because payments may be made by crediting dividends, either patronage or otherwise, or retains to the stock or certificate note. If the cooperative is not successful, growers' stock notes are of rather poor collateral value.

Usually the amount of retains that can be deducted from gross sales proceeds is limited by the competitive position of the cooperative. If the possible margin of savings is small, large retains may have so severe an effect on deliveries from farmers that the association may have to abandon operations.

Proper management of the capital account is vital. The estab-

lishing of adequate capital should be well thought out as a long-time policy program, and must be continuously reviewed. It must be guarded by developing and maintaining sufficient working capital for the current operations of the business and must provide a cushion for periods of adversity, as well as to provide for reasonable expansion needs of the cooperative.

Adequate reserves must be provided for. Valuation reserves, such as reserves for depreciation and bad debts, must be maintained and carefully analyzed to be sure that the estimates are as correct as possible. Liability reserves to care for adjustments in carrying charges, taxes and any other liabilities which are known to exist but which are indefinite as to amount, must be established. The amount of capital reserves required to care for contingencies, reserve funds for future expansion, and for general purposes, should be carefully and periodically reviewed. Stock or certificates of interest should not be issued to producers to evidence reserves of this kind and such reserves should not be paid out as dividends either by cash payments or stock dividends except under most favorable conditions.

The Farm Credit Administration is authorized under acts of Congress to make loans to cooperative marketing and purchasing associations for each type of loan discussed above; except that loans to cooperative purchasing associations for the acquisition or purchase of physical facilities and for the refinancing of loans which were used by the applicant for the purchase or acquisition of facilities cannot be made. There are two loan classifications under the act as amended, namely, effective merchandising and facility.

The district banks for cooperatives, one located in each of the twelve federal land bank districts and the Central Bank for Cooperatives located at Washington, D.C., have outstanding loans to cooperative marketing and purchasing associations of every type referred to. The various policies of the district banks for cooperatives and the Central Bank for Cooperatives in making such loans have been discussed from time to time by Commissioner Peck of the Cooperative Division and, therefore, no effort will be made at this time to enter upon a discussion of policies.

The twelve federal intermediate credit banks of the Farm Credit Administration are also authorized under acts of Congress to make direct loans to cooperative marketing and purchasing associations. The intermediate credit banks may make loans to cooperative marketing and purchasing associations if such loans are secured by warehouse receipts or shipping documents covering staple agricultural products or by such other collateral as

may be approved by the Governor of the Farm Credit Administration. They may make loans at an interest rate approximately 1 per cent less than the rate permitted for the district banks and the Central Bank for Cooperatives. They may also make loans without the requirement of the purchase of capital stock which is necessary in regard to loans made by the district banks for cooperatives and the Central Bank for Cooperatives. It has been the policy of the federal intermediate credit banks, however, to practically restrict their loans to those secured by commodity collateral. They have never entered the field of facility or unsecured loans. They have usually restricted the maturity of loans to that of an operating season for cooperatives.

Commercial banks loan large sums of money to cooperative marketing and purchasing associations and make loans for practically all the purposes discussed above. Several of the large cooperative associations have loans of from $25,000,000 to $75,000,000 from commercial banks. These large loans are usually secured by warehouse receipts covering hedged commodities, although some unsecured loans have been made by commercial banks in rather large sums. Many cooperative marketing and purchasing associations have very good credit ratings in the principal money markets of the United States. These reputations have been built up by following sound conservative business practices.

The Cooperative Division at Washington including the Central Bank for Cooperatives and the district banks for cooperatives in each of the twelve federal land bank districts all have as a primary objective a desire to be a maximum service to worthy cooperative marketing and purchasing enterprises. The research and service section of the Cooperative Division at Washington is conducting worthwhile studies which embrace practically all phases of marketing and purchasing associations. The results of these studies will, from time to time, be made available to all those interested in cooperative marketing and purchasing operations. The majority of the loan policies, of course, are included in the statutes creating the cooperative banks. Our legal division and all branches of the Farm Credit Administration dealing with these problems, however, endeavor to apply the powers given in the statutes in such a way as to give the maximum financing assistance to borrowing cooperatives in order to be as helpful as possible in assisting producer members of cooperative marketing and purchasing associations to more effectively handle their distribution problems.

CHANGE OF PUBLICATION DATES

Beginning with this volume (Vol. XVII), the Journal of Farm Economics will be published in February, May, August and November in place of January, April, July and October.

The change was approved by the Executive Committee of the Association in order to adapt publication dates more satisfactorily to the date of the annual meetings which are held late in December. The custom of publishing the business proceedings and some of the papers of the annual meeting in the first issue of each year has invariably delayed the appearance of that number until February. The October issue has gone to press too early to include the program for the annual meeting. Under the new arrangement it is expected that the program will be completed in time to appear in the November number.

NOTES

The Notes section of the Journal of Farm Economics is omitted from this issue, making it possible to include more material from the annual meeting. This section of the Journal, however, will be included in the May issue.

Dr. H. B. Price, University of Kentucky, is now the Associate Editor in charge of Notes. Manuscripts intended for this section should be mailed to him at the Agricultural Experiment Station, Lexington, Kentucky.

This section of the Journal is suited especially for shorter articles covering such things as:

1. Preliminary results of research studies, reports upon smaller research projects, and reports upon certain aspects of larger studies.
2. Statements of particular research methods and procedures and suggestions for new methods of attack upon certain problems.
3. Developments of theoretical analysis.
4. Criticism or comments on points in articles or books of current interest to agricultural economists.

The Notes serve an important purpose and those who have material suited for publication under this head are urged to submit it to the Associate Editor in charge of Notes.

BOOKS RECEIVED

An Economic Survey of Agriculture in the Eastern Counties of England, 1933. Report No. 22, Farm Economics Branch, Department of Agriculture, University of Cambridge. 1934. VI, 77 pp. 2s. 6d.

Duddy, Edward A. and David A. Revzan, *The Grain Supply Area of the Chicago Market.* Chicago: University of Chicago Press. 1934. IX, 84 pp. $1.00

Dummeier, Edwin F. and Richard B. Heflebower, *Economics with Applications to Agriculture.* New York: McGraw-Hill Book Company. 1934. X, 742 pp. $3.75. (Reviewed in this issue.)

Eliot, Jared, 1685-1763, *Essays upon Field Husbandry in New England and Other Papers.* Edited by Harry J. Carmen and Rexford G. Tugwell with biographical sketch by Rodney H. True. New York: Columbia University Press. 1934. LVI, 261 pp. $3.50.

Fippin, Elmer O., *First Principles of Cooperation in Buying and Selling in Agriculture.* Richmond: Garrett and Massie, Inc. 1934. XV, 320 pp. $2.50. (Reviewed in this issue.)

Ginzberg, Eli, *The House of Adam Smith.* New York: Columbia University Press. 1934. VIII, 265 pp. $2.75.

Heaton, Herbert, *The British Way to Recovery.* Minneapolis: The University of Minnesota Press. 1934. VI, 184 pp. $2.00.

Hoffer, Charles Russell, *Introduction to Rural Sociology.* New York: Farrar and Rinehart, Inc. 1934. XIV, 500 pp. $3.00.

Hubbard, Joseph B., Editor, *Current Economic Policies.* New York: Henry Holt & Co. 1934. XII, 700 pp. $3.50.

International Institute of Agriculture, *Classification Scheme of Agricultural Science.* 1934. 171 pp.

Johnson, Sherman, *Wheat Under the Agricultural Adjustment Act.* Washington: The Brookings Institution. 1934. VIII, 103 pp. $.50. (Reviewed in this issue.)

Leven, Maurice, Harold G. Moulton and Clark Warburton, *America's Capacity to Consume.* 1934. XI, 272 pp. $3.00. (Reviewed in this issue.)

Lorimer, Frank and Frederick Osborn, *Dynamics of Population.* New York: The Macmillan Company. 1934. XIII, 461 pp. $4.00.

Myers, William I., *Farm Credit Administration.* New York: American Institute of Banking. 1934. 478 pp. $3.00.

Palyi, Melchior, *Principles of Mortgage Banking Regulations in Europe.* Chicago: University of Chicago Press. 1934. X, 38 pp. $.50.

Report of the Commission of Inquiry into National Policy in International Economic Relations, *International Economic Relations.* Minneapolis: University of Minnesota Press. 1934. IX, 397 pp. $3.00.

Report of the Committee on Land Utilization appointed by the Governor of Minnesota, *Land Utilization in Minnesota.* 1934. XIV, 289 pp. $1.50.

Schneider, Kurt, *Die Zukunft des europäischen Frucht- und Gemüsemarktes.* Düsseldorf: Arno Schade, Der Fruchthandel. 1934. 20 pp.

Wallace, Henry A., *New Frontiers.* New York: Reynal & Hitchcock. 1934. VI, 314 pp. $2.00.

Wheat Studies, Vol. X, No. 10, *Pacific Northwest Wheat Problems and the Export Subsidy.* Stanford University: Food Research Institute. August, 1934. 73 pp. $1.00. (Reviewed in this issue.)

Vol. XI, No. 1, *World Wheat Supply and Outlook, September, 1934.* 1934. 38 pp. $.50.

Vol. XI, No. 2, *Decline in Wheat-flour Export during the Depression*. 1934. 34 pp. $.75.

Vol. XI, No. 3, *Prices of Cash Wheat and Futures at Chicago since 1883*. 1934. 49 pp. $1.00.

Wuth, Ernst, *Betrachtungen zur gegenwärtigen deutschen Agrar- und Handelspolitik unter besonderer Berücksichtigung der Agraren Weltmarktverhältnisse*. Kiel: Lipsius & Tischer. 1934. 46 pp.

Young, Ralph A., *The New Monetary System of the United States*. New York: The National Industrial Conference Board. 1934. IX, 147 pp. $2.00. (Reviewed in this issue.)

BOOK REVIEWS

America's Capacity to Produce, by Edwin G. Nourse and associates. Washington, D.C.: The Brookings Institution, 1934. Pp. xiii, 608. $3.50.

This is a book for discriminating readers. It is the first of four publications in an ambitious collaborated study of "The Distribution of Wealth and Income in Relation to Economic Progress," which the Institute of Economics is making with a grant of funds from the Maurice and Laura Falk Foundation. The first volume came out in June, 1934; the second, *America's Capacity to Consume,* in September; a third, *The Formation of Capital,* is due shortly to appear. The last, *Income and Economic Progress,* is "to bring together the various segments of our investigation for purposes of interpretation, diagnosis, and prescription." The Foreword to *America's Capacity to Produce* outlines the plan of the larger study, after provocatively sketching divergent views on "the foundations of economic progress."

The abbreviated title arouses excessive hopes which the authors take pains to moderate in their Introduction. Later (p. 415) they suggest that a more descriptive title of the book might read, "America's capacity to produce during the period 1900 to 1930 with the capital goods and labor force which she then possessed and with the technology and the general pattern of operative and commercial organization then prevailing." The "severely limited objective" of the volume is to survey "our system of production realistically as a technological process," and to ascertain "the general trend of capital expansion in the United States," primarily in order to answer two large but limited questions: Is there evidence, in the period 1900-30, of an increasing "excess" of economic plant in the United States? To what extent, in the five "prosperous" years 1925-29 or in 1929, did actual production fall short of utilizing the practicable "capacity of our productive plant and labor supply to produce the goods and services which society requires?"

In nineteen chapters, which no one reviewer is competent to adjudge, various parts of our "economic plant" are examined with a view to answering these questions: agriculture and the leading mineral industries; several important branches of manufacture; and—under the head of "services"—electric power utilities, transportation, merchandising, money and credit, and the national labor force. The readable text is buttressed by five lengthy technical appendixes and 52 pages of statistical tables; and the authors express their belief (p. 28) that "our final estimates have been checked against the practical experience and criticisms of technicians and business men to an extent that eliminates possibilities of serious error."

The conclusions are summarized in Chapter XX. The first main question is answered in the negative. Contrary to a common view, the "margin of unutilized plant capacity," broadly speaking, did not expand in the period 1900-30. In "agriculture, mining (except for dislocations caused by the war), manufacturing, and electric power utilities," despite "particular instances of bad judgment or rapidly changing conditions of technology or of demand, . . . there was no general tendency to pile up capital equipment in continually growing excess above what could be commercially employed." As to construction and merchandising, in which physical plant

is relatively less important, "equally satisfactory measurement of capacity and its utilization" could not be secured, but the authors believe the same to be true. Of the fields specifically studied, in transportation alone was there clear evidence of piling up "excess capacity." In general, this conclusion seems well supported by the considerable evidence adduced.

The second main conclusion is that our plant and labor force were technically capable of producing, "under practical conditions of sustained operation," about 25 per cent more than they actually produced in 1929 or in 1925-29. More precisely, output was found to be 81 per cent of practicable capacity in 1929 and 79 per cent in 1925-29. As a nation we were not "living beyond our means." "There was an unutilized margin which, in the perspective of the past, would appear to be about normal." By contrast in 1932, in the depths of depression, our output is held to have been only about half as great as our "capacity to produce." To the question why, even in a period of comparatively active operation, output was so far below capacity, or why some such margin has been "about normal" for at least three decades, the answer is largely deferred.

Allowing for factors tending to prevent full realization of potential practical capacity of the integrated complex of industries and plants, the authors estimate that 19 per cent "could have been added to the total productivity of 1929"—"a very substantial achievement," though modest by comparison with roseate dreams of technocrats and others. War experience, briefly examined, is held to confirm two more general conclusions: "first, that a substantial increase above the levels of production reached even in prosperous times is certainly possible; and second, that the bright hopes of those who believe that the social dividend could easily be tripled or quadrupled depend for their realization upon a technological revolution. . . ."

The answer to the second and more important main question is far less convincing than to the first, even for the industries examined, one by one. The technological practicability may be granted, though at some points competent experts may not accept the estimates; but assuming "the general pattern of operative and commercial organization then prevailing" and various conditions with which it must expect to contend, the true practicability is not demonstrated to the reviewer's satisfaction. Just as the authors find the technologically practicable considerably less than the "rated" or theoretical capacity, so there are reasons for considering that, with the brains we have yet been able collectively to apply, the truly practical capacity is lower, for various individual industries, than the authors' figures suggest. This is certainly true of the milling industry, for which the authors find only about 40 per cent of capacity utilized over the period 1900-30, 50 per cent in 1925-29, and 53 per cent in 1929.

Still less convincing is the reasoning, condensed into five pages, by which the authors conclude that productivity as a whole could have been stepped up not by 25 per cent above the 1929 level but only by 19 per cent. The difficulties inherent in improving coordination of the various parts of the economic system, including those discussed and others, may be far larger than the authors consider them. The reader is given no adequate grounds for accepting the mere opinion finally expressed, and might even be excused for thinking that, on the assumptions the authors make, no improvement of consequence was practicable. This vital link in the argument of the whole series warranted for more attention.

The chapters vary greatly in value. Those which strike the present reviewer as excellent, including those on Minerals and Electric Power Utilities (by Frederick G. Tryon), are not those which he feels well qualified to judge. Several present illuminating, significant discussions of the course of industrial development focussed broadly on the two central questions. Ingenious analytical techniques are brought to bear on the estimation of practicable plant capacity. In breaking much ground, in presenting materials, procedures, and conclusions for testing by others, the book has importance. Probably all the work here reported needed to be done. The volume contributes essentially *toward* answering the questions suggested by the title and furnishes part of the foundation for a fuller answer.

The chapters of special interest to readers of this journal are not among the best. In the discussion of agriculture, which occupies 14 pages of text and somewhat more in two appendixes, the self-imposed limitations of the study stand out clearly. No attention is given to the questions: What was, what is, and what will be America's capacity to produce agricultural products, in each of several possible combinations of enterprise, products, and technique? Only incidental consideration is given to the factors that have made possible the expansion of agricultural output that has occurred to those that have set limits to this expansion, and to those that may promote, retard, or reverse that expansion in future. To the reviewer these matters seem germane to the general subject, but they are considered outside the scope of this specific inquiry. The authors proceed on the assumption that natural resources are ample for such agricultural output as we are producing or are likely to choose to produce, and that potentialities of our land area for agriculture are irrelevant to the study. Attention is concentrated on the national farm plant exclusive of land, the labor force in agriculture, and the output, using largely index numbers derived from decennial census data and an annual index of agricultural production. Really adequate data are lacking, and the analysis is carried far enough to yield what are admittedly only rough approximations. If convincing answers even to the questions posed by the authors are possible for agriculture, they can be gained only by a more thorough study than Dr. Nourse found it possible to give.

The chapter on manufactures of food products might also seem of special interest to agricultural economists. Here in 17 pages are briefly considered meat packing, the dairy industry, fruit and vegetable canning, beet sugar manufacture, and flour milling. Of none is the treatment thorough or convincing. "Changes in their rate of activity," the authors say of the food industries, "are dictated chiefly by the volume of raw materials coming forward from farmers." Of meat packing and the dairy industry this is doubtless true in so far as short-time and year-to-year variations are concerned, but even here variations in demand (chiefly domestic except for pork products) play no small part in determining price and in turn what farmers produce and send to market. The statement is less true, as the authors recognize, in the canning and beet sugar industries, where advance contracting with farmers is common. It is not true of the milling industry, where other factors than the volume of wheat marketed by farmers chiefly determine the rate of mill activity. Over a period of years, in almost all food lines, the volume of farm marketings is not an independent determining variable.

The book necessarily disappoints hopes aroused by its broad title, and

the reviewer believes that, for the avowed purpose of the larger study, the authors limited their objectives too narrowly. When one considers the various means by which the social output might conceivably be enlarged, increased faster, or better maintained, intangible as well as tangible goods must be considered, and it is an open question which of many conceivable means is the more promising—for example, growth of technical knowledge, perfection of business technique, increase of plant in certain directions, improvement in labor efficiency or effectiveness, greater or less "government interference," reconstructing the social system, or reducing the margin of idle plant and labor. As one reads between the lines of economic history, even in the pages of this book, the last-named has not been the actual mode of economic progress; yet one infers that the authors regard it as holding out hope for the future. Even one penetrating chapter on the concept of "capacity to produce," and the factors and forces that determine and limit it, would have been welcome to many readers who find the volume unsatisfying in spite of its real value. The authors are presumably aware but do not expressly say, much more, patient, penetrating thought and research on many elements of the subject are needed before a really satisfactory synthesis on "America's capacity to produce" will be possible.

J. S. Davis

Food Research Institute, Stanford University

America's Capacity to Consume, by Maurice Leven, Harold G. Moulton and Clark Warburton. Washington: The Brookings Institution, 1934. Pp. xi, 272. $3.00.

This book is the second volume in the series of the studies by The Brookings Institution on the "Distribution of Wealth and Income in Relation to Economic Progress." The study shows how consumptive capacity as represented by income has grown during the period from 1900 to 1930 and how it has been distributed among income receivers and spending groups. It also estimates the division between spending and saving and some of the broad results which would follow an increase of income among the lower income groups. This is without doubt the most concise and best presentation of existing factual data on these problems. The care that has been exercised in reaching conclusions may be judged by the great mass of materials included in the statistical appendixes, which occupy just half of the pages of the entire volume. The book is disappointing only in its failure to break much in the way of new ground.

Part I is concerned with the size of the national income and its distribution. It is a compact presentation of the earlier work on the problem, principally by the National Bureau of Economic Research, and brings these data to 1929. The total income series of W. I. King has been carried forward, and Mr. Leven has made an estimate of the geographic distribution of income in 1929 similar to those he made for the earlier years of 1919-1920-1921. An important contribution is an estimate of the number of families and unattached individuals in various income classes in 1929. The data show a discouraging situation. Per capita income when estimated on a deflated price basis shows an increase of only 1.3 per cent a year over the three decades, and even in actual dollars in 1929 amounted to only $750 per person. There were other gains, such as a shortening of hours, that do

not appear in money computations, but the increase and the final level is pitiably small for a period of such relatively great technical achievement. Geographically, the highest per capita income is in the industrial north east and the far west and lowest in the agricultural south east.

Part II presents estimates of the utilization of the family income, both the division between spending and saving and the division of expenditures for food, home, attire and other living. The estimates are based on the division in the use of income on various income levels found in studies of consumer expenditures. A great many of these studies have been made in the United States and while only a limited number were found sufficiently comparable to be used in the analyses, and some of these only after retabulation, the general conclusions of all the studies are similar and well known. The inadequacy of data for the higher income groups has been bolstered by a special survey of expenditures in these groups. Great inequality of consumption is, of course, found. Nearly half of the total expenditures for "other living" were made by the ten per cent of the families with the highest income; half of the total for attire and adornment by the upper 24 per cent; half of the total for shelter and home maintenance by the upper 20 per cent, and half the total for food by the upper 36 per cent. The case of savings is even more striking, 86 per cent of the total savings being made by the ten per cent of families with the highest incomes. These families had incomes above $4,600. The second ten per cent of the families, with incomes from $3,100 to $4,600, accounted for 12 per cent of the savings, while the remaining 80 per cent of the families accounted for only two per cent of the total savings. The proportion of the total income saved is thought to have increased toward the end of the period.

The conclusion as to the bearing of these facts on the general problem and in view of the analysis developed in the earlier volume, *America's Capacity to Produce*, are presented in Part III. They may be succinctly stated as follows: 1. During the so-called "new era" of the gay twenties the United States was not living beyond its means. 2. There has been a tendency during the last decade or so, for the inequality of incomes to be accentuated. 3. Vast potential demands alike for basic commodities and for conventional necessaries exist in the unfulfilled wants of the masses of the people, both rural and urban. 4. The United States has not reached a stage of economic development in which it is possible to produce more than the American people as a whole would like to consume. 5. We can not materially shorten the working day and still produce the quantity of goods and services which the American people aspire to consume.

This is a very sobering collection of data and well worth pondering over, particularly by those who believe that we may be close to the entrance of a utopia. The authors demonstrate quite conclusively that if we are to consume much more per capita than we did in 1929 we must all work longer and harder. Every economist and student of social problems should be thoroughly familiar with the data in the book and the implications which they have on the solution of our present problems. The authors have performed a real service in presenting them in such a concise and striking manner.

W. C. Waite

University of Minnesota

The New Monetary System of the United States, by R. A. Young, New York: The National Industrial Conference Board, Inc., 1934. Pp. ix, 147. $2.00.

One who reads this book for a definite answer to the question posed on the jacket, "Is Inflation Inevitable," probably will be still in doubt on reaching the final pages. However, he will have added substantially to the facts and interpretation with which he appraises monetary phenomena. Also, if he accepts the author's point of view, he will be keenly alive to the possibilities within the present monetary structure for currency expansion and price increases, controllable or otherwise.

The first of the five chapters is a compact summary of leading features of the prewar and postwar gold standard with considerable emphasis on the trend toward central bank monetary management in the postwar systems. The second chapter is an outline of the present monetary structure stressing in particular the points of difference (it might be simpler to discuss the similarities) between the "New Managed Gold Standard" and the orthodox standard based on free convertability of the metal base. Also discussed is the recrudescence of silver and the new alignment of powers as between Executive and Federal Reserve with respect to currency control.

It is in chapters three and four, covering the objectives, method, and dangers of money management, that the meat of the argument is presented. A "flexible formula" related more closely to full employment of industrial and agricultural resources than anything else is the author's interpretation of price level objectives of the administration—this instead of the 1926 price level "fetish" which is rather elaborately discredited. On the means of gaining this objective, if anything so pleasantly general can be thus described, the views of Professor James Harvey Rogers are taken to express the administration's working philosophy. As summarized it is:

"a plan for systematically increasing the supply of Treasury currency so that reserves of commercial banks, and necessarily also of the Federal Reserve Banks, will be materially enlarged, and commercial banks will be induced freely to expand their deposit currency issues without fear of an impending decrease in available group reserves. . . ."

Integral parts of the above plan in the view of the author are the relegation of the Federal Reserve System to a distinctly secondary role in currency control and the sacrificing of international stability if this proves incompatible with domestic management and stability.

It is unnecessary to review the ten assumptions which are seen as basic to workability and success of treasury monetary management. The significant ones among these become apparent in the problems of monetary management or of "controlled inflation." The two for the author are apparently regarded as synonymous. The point of departure in appraising these problems is the (to the reviewer) thoroughly sound position that

"No narrow and purely technical analysis of monetary mechanics is sufficient to justify a plan of currency management or to indicate its possibilities."

Discounting the extreme position taken by the "monetary alarmists" as to the abandon with which price-raising measures are likely to be applied the author does see possibilities of a huge currency expansion. In the be-

ginning, however, there is the "obstinate fact" that commercial banks are the arbiters of the expansion of a large portion of the deposit currency. The creation of this deposit currency must wait upon the demand for loans and upon the parallel factors governing the willingness of the bank to make them. The element of control is further weakened by federal relief expenditures, monetary implications of other phases of the recovery program, and the impatience and potency of various political pressure groups. Finally, domestic control does not settle and, indeed, intensifies the problems of international monetary instability—an aspect which receives detailed discussion.

The foregoing statement is far too brief to do justice to the ground covered or analysis developed in the book. It contains, however, what the reviewer interprets to be the essentials of the argument.

There are a number of points, some of them of a purely technical character, upon which the reviewer—for the time at least—would be inclined to disagree with the author. Thus the statement that the Federal Reserve System brought inflexibility to the monetary system is by no means proven by finding a base of commercial obligations or "debt" for that part of the currency not covered by gold. Another question might be raised regarding the neglect of the factor of velocity in appraising the efficacy of currency control. Turning attention, however, to questions of larger focus, it may well be asked if the major fault of the book, as a realistic analysis, is not in taking the monetary program of the administration too seriously. To the reviewer, it has appeared that the monetary program of the administration is more one of an elaborate defense against uncontrollable inflationist (and free silver) sentiment than it is one of a managed currency. Working on the principle that skilfully executed retreat is often the best strategy, it may well be that President Roosevelt is a better friend of sound money than the uncompromising sound money man himself. And if at the same time a moderate lift in commodity prices can be achieved, no doubt it is an acceptable by-product.

But granting that the administration is serious in its efforts to achieve a managed currency and a controlled price level, a statement of the attendant difficulties and dangers such as here presented leaves the question of a better alternative still unsolved. And further, granting that experimentation may be an expensive substitute for pre-analysis and planning, it still remains that a fair trial is the acid test of currency management. The results of such control have been given a sufficiently idyllic cast by the protagonists of a managed currency that having come to the play, we should perhaps remain for the final acts.

J. K. Galbraith

Harvard University

Economics with Applications to Agriculture, by E. F. Dummeier and R. B. Heflebower. New York: McGraw-Hill, 1934. Pp. 742. $3.75.

As the scope of agricultural economics broadens, its devotees at one and the same time fit their science more closely into the general structure of economic theory and segregate for themselves a sector of the field more distinctively and unquestionably their own. The two forebears of the new science, it is now recognized, were farm management and general economics. Arising in the college of agriculture, farm management gave the

science its beginning and its distinctly agricultural flavor. The internal problems of the individual farm, however, began at an early date to give way, as the topic of inquiry, to those of agriculture as a whole. The depression of 1921 quickened the interest in these external problems and undoubtedly did much to facilitate that widening of the field which, during the subsequent decade, brought it into more intimate contact with that occupied by the general economists.

The literature of agricultural economics, as a formal discipline, has reflected this metamorphosis. Its earliest published materials where chiefly farm management treatises. Among those who played a great part in reshaping the field was Henry C. Taylor whose book "Agricultural Economics," published in 1919, served as a vehicle for much of the thought that was incident to the expansion of the field. This expansion has not lessened, quantitatively, the work done in farm management which has indeed continued to increase. Nevertheless, the relative emphasis has shifted in the direction of the economics of all agriculture and with this shift has come the feeling that the teaching of agricultural economics should begin with the principles of economics rather than with beginning farm management courses.

The book under review represents an advanced stage of the recognition of a need for a principles-of-economics background in the training of the agricultural economist. It attempts to do what so many have wished to have had done. As its preface remarks: "The book was begun with the object of supplying a text which would present the generally accepted principles of economics clearly, thoroughly and comprehensively, and which also would apply these principles to present day problems of agriculture." More than any other beginning text this one, in the judgment of the reviewer, has approached the field from the side of its economics forebear.

The book has a number of characteristics interesting to the modern teacher and student. Its approach represents a composite of the classical, institutional, historical and quantitative viewpoints in economics. Because problems and historic illustrations are intermingled with principles, the presentation is diverse rather than compact and pointed. Topics are taken up and rushed over in such rapid succession that the sophomore mind may need to be somewhat more steady than it usually is if the many transitions do not unduly interfere with coherence of thought. It is undeniable that something is gained by giving principles a more likelife setting.

The authors' grasp of economic history and the development of economic doctrine give them an unusually firm hand in the treatment of their subject. Their perspective is perhaps sounder from the economic than the agricultural approach, if that means anything. They write, for instance (page 32) "The manorial system may properly be described as a system of rural local-community economy characterized by isolation and stagnation." This statement fails sadly to square with the judgment of that scholarly student of agricultural history, Prothero, who says (page 3, *English Farming Past and Present*): "Medieval manors, in fact, resembled trade guilds, and it would be difficult to frame an organization which, given the weakness of the law and the infancy of agriculture, was better calculated to affect the object of mutual help and protection. . . . Thus the system was suitable to the times and their conditions." Even today agriculture retains much of its stolidity and remains a "way of life" as well as a business or occupation.

To an unusual degree the authors make use of figures, tables, graphs and maps. The recent grist of books on economic problems can hardly produce an example to match. Agricultural economists have been peculiarly fecund in the field of quantitative analysis and this fact, encountered in their review of literature, undoubtedly accounts for the authers' predilection in this respect. A judicious use of figures (numbers) clarifies the text. Too great a use of them makes them a burden upon the memory. Whether the authors have transgressed in this respect or not remains to be seen. There is no doubt but that they have often come dangerously close to doing so. Paradoxically, however, there is virtue in the transgression. Modern economics is becoming increasingly quantitative and the future may impress upon economists the necessity to slow the teaching of principles to the point that numerical illustrations and measurements of effects and counter effects may be more fully apprehended by the neophyte.

The book is a contribution to economic doctrine only in the sense that it provides a summarization in readable and condensed form of the great host of bulletins, reports and books that have been forthcoming from the agricultural economists in recent years. The authors' acquaintance with and comprehension of the broad range of this material is highly commendable. They maintain, however, no revolutionary viewpoints with respect either to agriculture or the existing economic system. The "challenge of the times" is met and dealt with judicially and without any tearful sympathy for agriculture, which is, perhaps, just as well.

Its clear positive style, excellent balance of viewpoint, and comprehensiveness, together with the fact that it reflects the agricultural situation since 1920, all recommend the book to both teacher and student. Dummeier and Heflebower have set a high standard for agricultural economists who contemplate a similar book of their own.

Conrad H. Hammar

University of Missouri

Reshaping Agriculture, by O. W. Willcox, New York: W. W. Norton & Co.. Inc., 1933. Pp. 157. $2.00.

The main thesis of this book is that the work of agrobiologists, plant breeders, agricultural engineers, and other scientists dealing with agricultural production is about to result in enormous increases in the production per acre of land without corresponding increases in production costs. These increases in acre yields will result in revolutionary changes in land use. Production will be concentrated on the good land. At least 70 per cent of the land now under cultivation will be abanoned. Large numbers of farmers on the poorer grades of land will be forced out of production and will constitute a serious social problem. To prevent such a catastrophe, the author suggests legislation providing production quotas for all farmers. If this legislation could be adopted at once, it would guarantee to each farmer his present share of the market for agricultural products and prevent his elimination otherwise inevitable through free competition.

The first six chapters of this book are devoted to the menace of increasing crop yields and the last two to methods of avoiding this menace through social and economic legislation. The portion dealing with production possibilities is not very convincing. Agricultural economists generally agree that through the use of improved varieties of crops, the increased use of fertilizer, more irrigation, better drainage, and the use of improved machinery,

agricultural production could be vastly increased with perhaps a considerable displacement of man power. The trend toward the abandonment of poorer lands and the more intensive cultivation of the better lands is already under way. It is, however, difficult for the prosaic economist to stretch his imagination to encompass the menace of acre yields of 225 bushels of corn, 171 bushels of wheat, 395 bushels of oats, 1,330 bushels of potatoes, or 4.6 bales of cotton. It is even more difficult to accept the author's assurance that even in the present state of the arts yields approaching these are attainable and that within a few years the work of the plant breeders will bring them all within our grasp. Why we are now plodding along apparently satisfied with yields less than 10 per cent of the potential "perultimate" is not apparent unless explained by this quotation, ". . . the common run of ordinary, ignorant or shiftless farmers. . . ." The reviewer can not accept this characterization of farmers. It is true that within limits crop yields can be increased without corresponding increases in cost by following the best agronomic practices but beyond these limits costs mount rapidly.

The economist would find the discussion of the methods of increasing crop yields and the possibilities in that field more convincing if accompanied by references supporting the statements. A more realistic approach with less of apparent hyperbole might gain more credence for the author's ideas. That average crop yields can easily be increased from five to ten fold or more by the use of productive strains of crops, ordinary good tillage practices, and the use of commercial fertilizer and irrigation water with only moderate increases in cost a little hard for anyone with agricultural training and experience to believe. Especially is the naive treatment of costs unsatisfactory.

The main thesis seems to be an adaption to agriculture of recently adtised bug-a-boo of industry, technocracy. Adjustments come much more slowly in agriculture than in industry, as is clearly pointed out in the forward by Dr. Alvin Johnson and few will be alarmed by the author's fears for the pressure of food supply on population, at least from causes stressed in this book. Consequently little interest will attach to the production quota plan for saving farmers who, as the author fears, would otherwise be overwhelmed in the threatened flood of farm production. Since this plan would freeze agriculture in its present unsatisfactory mold and since it is nationalistic in its implication and ignores the principle of comparative advantage, it can hardly be expected to command much attention in economic circles.

George A. Pond

University of Minnesota

Your Meals and Your Money, by Gove Hambidge, New York: Whittlesey House, McGraw-Hill Company. 1934. Pp. xiii, 190. $1.50.

The element of the dramatic ever has its appeal to the academic as well as to the popular mind. In *Your Meals and Your Money*, the author has made use of this element to produce a very readable book concerning the scientific facts of nutrition and consumer problems related to nutrition. One might wish, however, that he had employed less of "journalese jazz" in attempting to popularize his material.

Throughout the last decade consumer problems have become of increas-

ing interest. Since the consumer so quickly becomes the producer, and vice versa, it is always difficult to obtain scientific facts or unbiased opinion on the subject. In the book, *Your Meals and Your Money,* Mr. Hambidge attacks the consumer's food problem by first taking the facts of human nutrition and relating them to the planning of meals for the family, then going one step further and relating this problem to the cost of feeding the family at various content and cost levels. In the last chapter of the book he attempts to show how the proposed food consumption plan would affect national well-being, particularly as it pertains to improved physical development of the population and improved economic conditions for producers of food through increased land utilization and shifts in production.

In order to understand the second development in the book—the national well-being which the author hopes for—it is necessary to look briefly into the diets which he describes. Analysis of these diets takes up six of the seven chapters. Enough of the elements of nutrition and sufficient details concerning cost and quantity are set forth to give the reader a basic understanding of the plans.

Plan I is a "restricted diet for emergency use." It provides the minimum quantity and quality of food for health protection, in the light of present knowledge. It is on the "border-line" of adequate nutrition and too low to follow year in and year out. It is designed for families that do not have enough money to do more—families, as the author points out, that make up the largest part of our population. Its aim is to avoid crippling nutritional diseases rather than to build for maximum development and health.

Plan II, an "adequate diet at minimum cost," provides more protective foods, more body-building proteins, and a more liberal quantity of food than Plan I, and allows a slight margin of safety for physical development.

Plan III, an "adequate diet at moderate cost," provides an ample margin of safety and protection to health and physical growth, yet, as the author warns, its use demands a "shrewd eye on economy."

Plan IV outlines a "liberal diet," one that provides a generous margin of protection for health and growth, with considerable leeway for individual preference in the choice of foods. It recognizes good nutrition, yet does not allow for extravagances. Thus, even it is not "the gourmet's dream."

The author would plead for the adoption, on a nation-wide basis, of at least Plans III or IV. In the last chapter of the book many figures are marshalled to show how land use would shift and increase through such a change and how farmers' incomes would benefit. On the first point—improved physical development—most informed people would agree with Mr. Hambidge. On the two latter points the author becomes somewhat like "the daring young man on the flying trapeze," fascinating one with his performance even while leaving one somewhat fearful that he will not successfully complete his swing. Just how the changes which he envisages would be brought about, or what the possible catastrophic effects upon the whole agricultural industry would be were they brought about, he does not attempt to explain. His optimism is assuming that the food habits of people can be quickly changed and shifts in agriculture easily accomplished would hardly seem to be supported by the facts. Those who have been engaged in nutrition education throughout the past two decades and those

who have been working in emergency relief can testify to the difficulty of changing deep-rooted food habits.

Mr. Hambidge acknowledges his indebtedness to a circular, "Diets at Four Levels of Nutritive Content and Cost," by Stiebeling (Hazel K.) and Ward (Medora M.), of the Bureau of Home Economics, U. S. Department of Agriculture, which is based on the most recent research of recognized workers in the field of nutrition and on "retail prices gathered from all over the United States." Indeed his material on this subject is largely a restatement and amplification of this circular. The dietary facts which Mr. Hambidge uses may therefore be considered scientifically accurate. The limitations to the second phase of the book are suggested by himself when he says, "So where you find facts and figures in the book, thank the original workers. Where you find speculation blame the author."

Paulena Nickell

University of Illinois

The Decline and Recovery of Wheat Prices in the Nineties, by Helen C. Farnsworth. Wheat Studies of the Food Research Institute, Vol. X, Nos. 8 and 9, Stanford University. June and July, 1934. Pp. 63. $1.00.

The sharp decline in business activity and prices from 1929 to 1933 stimulated a great deal of interest in analogies of previous business depressions and price movements. The demand for long-time series of statistical data was markedly increased and, judging from requests sent to the Department of Agriculture, even high school students and local discussion clubs have become interested in price history. Sometimes this interest extends only to the ascertainment of the previous low point. Occasionally a detailed analysis of historical price changes for a particular commodity is sought as a means to a better understanding of the present situation and as a possible means of forecasting the near future course of prices.

This study of the decline and recovery of wheat prices in the nineties is an example of the latter type with a view to appraising the prospects for wheat prices in the near future, in the light of what occurred in the nineties; the most similar situation on record. Mrs. Farnsworth has done a thorough and commendable piece of work.

The first 14 pages are devoted to a discussion of "The downward trend of wheat prices, 1870-1900." The influence on wheat prices of both monetary and non-monetary factors, especially the latter, from 1870 to 1900 are discussed. British import prices and Chicago contract cash prices of wheat have been deflated by wholesale price indexes in the respective countries from 1870 to 1934. The results would be considerably different if the wheat prices were deflated by a general level of all kinds of prices instead of by an index number based only on wholesale prices of commodities.

Part 3 treats of the recovery of wheat prices after 1895. Mrs. Farnsworth concludes that "Nature which was primarily responsible for the emergence and growth of a world wheat surplus from 1891-1895, together with 'normal' increase of world consumption, was primarily responsible for the reduction and subsequent elimination of that surplus."

Part 4 deals with prospects of recovery from current low wheat prices. Mrs. Farnsworth here makes a noble attempt to define a "normal" level of wheat prices not in terms of so many cents a bushel but in terms of the ratio of wheat prices to the general level of wholesale prices. It is not con-

sidered probable that so long as world year-end stocks substantially exceed 700,000,000 bushels that complete and substantial recovery of wheat prices is likely. It is stated further that "though conceivable, it now seems beyond the bounds of probability that the world wheat carry-over will be reduced to 700,000,000 or less by August 1, 1935." The marked reduction in this year's world wheat crop amounting to over 300,000,000 bushels in the Northern Hemisphere and Australia and evidence of a smaller crop in the Argentine, indicate that world stocks may be considerably less than 700,000,000 bushels by the end of the current marketing year. These data are not presented for the purpose of discrediting the author's analysis or predictions which were logical on the basis of the outlook at the time they were made. The marked reduction in this year's world wheat crop which was not fully apparent until after this study was published and the resulting improvement in wheat prices merely goes to show the difficulty of making forecasts which may be upset by the capriciousness of nature.

Arthur G. Peterson

Bureau of Agricultural Economics

Dairy Products Under the Agricultural Adjustment Act, by F. F. Lininger, Washington: The Brookings Institution, 1934. Pp. viii, 99. $.50.

This is a current appraisal of the operations of the AAA program for dairy products written early in 1934. It is one of the series covering important basic commodities being issued by the Brookings Institution.

The dairy problem is probably one of the most difficult with which the AAA has had to deal. The author makes this apparent by reviewing the dairy situation in 1933, with its accumulated surpluses of various types of dairy products and the record number of dairy cows. The complex marketing system for milk and dairy products is shown to complicate greatly the problem of working out a program to obtain parity prices for dairy farmers.

The AAA decided to seek parity prices for fluid milk, butter and other dairy products as separate commodities. This involved attempting to raise prices more than 10 cents per pound butterfat, with the prospects for immediate parity prices not very bright.

To those interested in the changing policies of the AAA in seeking parity prices for fluid milk, this account throws considerable light on the whole problem. The author shows that at the very outset there was a wide difference of opinion regarding policies. Secretary Wallace believed that the principal method to be used in raising prices to parity was control of production, whereas Mr. Peek and Dr. King believed in the more immediate action involved in marketing agreements as a method of securing parity prices for fluid milk producers. Dr. King had long been associated with the collective bargaining operations of fluid milk marketing associations and therefore had confidence that prices could be elevated through market agreements. As soon as the agricultural adjustment act was signed on May 12, 1933, the Pure Milk Association of Chicago was working on a milk market agreement with Dr. King and his staff. The Chicago agreement went into operation on July 28 and by the middle of September over 100 tentative agreements had been submitted to the AAA. The number had increased to over 200 early in December, but only fifteen had been put into operation by the close of the year.

Professor Lininger discusses the difficulties encountered in drafting the

fluid milk market agreements. One of the most important of these was the controversy over the cash-and-carry differential in retail selling prices. Another perplexing problem was a method to control production of the fluid milk producers. Dr. King believed that the base-surplus plan in use on many fluid milk markets could be used effectively to control production whereas Secretary Wallace was skeptical and sought a more far reaching program. Another point about which controversy raged was the representation of the producers and distributors on the local market advisory board.

The difficulties encountered in enforcing the provisions of the milk market agreements are discussed by the author. He shows that it was early found necessary to license all distributors in a market area in order to be able to make those who did not sign the agreement follow its provisions. The authority of the AAA to enforce the provisions of the agreements and licenses was soon challenged, but the courts in the vast majority of cases have upheld the AAA. The most difficult phase of enforcement of the agreements was soon discovered to be in maintaining the resale prices set forth in the licenses. In order to simplify the enforcement problem, the AAA early in January, 1934, decided to discontinue its support of resale prices and concentrate upon enforcement of prices to producers.

The AAA early contemplated the development of national marketing agreements covering all important types of dairy products. The fluid milk market agreements in the early stages contained provisions for regional and national coordination of the industry. National agreements were worked out covering evaporated milk and dry skim milk but no licenses were used to enforce these agreements, which are very similar to NRA codes. Market agreements for butter, ice cream, and cheese were proposed in 1933 but not approved.

In discussing the stabilization operations in butter the author shows the need for energetic action in the summer of 1933. These operations were effective in raising and stabilizing butter prices, but were discontinued due to the opposition of Secretary Wallace who regarded them as an emergency measure which must be supplemented by effective production control. Such a program was presented to the dairymen throughout the country in April, 1934, but met with considerable opposition in the majority of fluid milk markets and has never been put into operation.

In this monograph Dr. Lininger has given a clear and concise statement of the history of the AAA dairy program up to the spring of 1934. He undertakes no critical estimation of the program because this would, in all probability, close the doors to the inside information so important in writing a comprehensive history of the AAA. The picture he gives is therefore not quite complete. He omits discussion of the long battle of the milk cooperatives to secure recognition from the AAA. Nor does he explain the interminable delays in securing approval of the various market agreements.

This discussion of the AAA dairy program brings out the fundamental problems involved in government regulations of industry under the profit-seeking capitalistic system with the majority of consumers unable to buy the volume they ought to consume for a healthful standard of living, and unable to pay a price sufficient to cover the cost of production and distribution. The AAA recognizes the importance of increased consumer purchasing power and larger consumption, but is gearing its whole program of adjustment of production to the reduced consumption resulting from

curtailed consumer purchasing power. In the dairy program this results in stalemate. Even if parity prices were obtained the volume sold would be so reduced that there is a real question whether the total returns to dairymen would be sufficient to cover the cash costs of production, minimum cash living expenses, and debt payments, let alone leave anything for satisfying the desires of farm people for consumption goods. The problem raises the fundamental question whether we can ever achieve real prosperity through planning and working for scarcity in an elusive attempt to expand farm income.

Gordon H. Ward

Virginia Agricultural and Mechanical College and Polytechnic Institute

Wheat Under The Agricultural Adjustment Act, by Sherman Johnson, Washington: The Brookings Institution, 1934. Pp. 103. $.50.

The scope of this pamphlet is stated in the preface by Edwin G. Nourse, Director of the Institute as follows: "Like other numbers in the pamphlet series, it is limited to a factual statement of what has happened in one particular field. No attempt is made at this time to assess the merits of the program or to appraise its results."

Mr. Johnson has restricted his discussion within the limits specified by Director Nourse. He gives first a brief history of the evolution of the domestic allotment plan and next a summary of the AAA wheat program. The wheat program of the Agricultural Adjustment Administration consists of five parts: (a) direct payments to farmers, and control of wheat acreage, through the application of the "wheat adjustment plan"; (b) cooperation with other countries in an attempt to limit wheat exports and remove restrictions on imports; (c) reduction of accumulated supplies in the Pacific Northwest by facilitation of exports from that region; (d) reduction of supplies by purchase of wheat for distribution in relief channels; (e) regulation of trade practices through establishment of codes of fair competition.

The five-part program is summarized briefly and the remainder of the pamphlet devoted to a discussion of the wheat adjustment plan. The plan is described in considerable detail and data presented showing the anticipated effect on growers' prices and incomes. The administrative policy and organization, the educational campaign, the application sign up, the local organization work, the problems met and dealt with and some of the early results of the program are given in later chapters.

The pamphlet is primarily historical. The data were collected while the events described were in progress. The author was in a position to write with authority. Apparently he used good judgment in his selection of material and presents it without bias or prejudice. It will doubtless be used as a source of information by historians of the future who do not wish to read and analyze the multitudinous publications of the federal government and agricultural extension services of the various states upon the subject and who will be unable to obtain first hand information of the reaction of farmers to the program upon its initial presentation.

It is to be hoped that the Brookings Institution will continue to assemble data concerning wheat under the agricultural adjustment act and that at some later time the results of the program will be presented. Although the

major portion of each generation is prone to think that past history can teach few lessons because "conditions have changed" there are always a few of the more thoughtful who are willing to apply past experiences to present conditions. These few can speak boldly, and we hope convincingly, if they have data which are unquestioned.

H. C. Filley

University of Nebraska

First Principles of Cooperation in Buying and Selling in Agriculture, by Elmer O. Fippin, Richmond, Virginia: Garrett and Massie, Inc., 1934. Pp. xv, 320. $2.50.

The primary purpose of this book is to present the principles of cooperation to the agricultural youth enrolled in the vocational agriculture departments of high schools and in 4-H clubs.

The author stresses the necessity for acceptance of the philosophy of controlled agricultural production and the evils of the private middleman system. This may be due partly to the author's connection with the cooperative movement since he first became associated actively with it in 1931 as the Northeast regional representative of the Federal Farm Board. He is now employed as an economic analyst in the Cotton Processing and Marketing Section of the Agricultural Adjustment Administration. The book will become less acceptable if the agricultural adjustment act is repealed. His major work until 1919, when he joined the National Lime Association, was as professor of soils at Cornell University. In 1924 he was appointed director of the Experiment Station in the Republic of Haiti and in 1926 he became executive-secretary of the State Conservation and Development Commission in Virginia.

The author included much more in this small book than the principles of cooperation in buying and selling. He has chosen to include phases of general agricultural economics, farm management and marketing, rather than go into a more thorough discussion of cooperation. This increases the difficulty of teaching the subject well for the many vocational teachers who have not had a course in cooperation during their teacher training period.

It may be debated whether such chapters as those on income and organization in agriculture and industries; produce exchanges and boards of trade; cotton and grain futures acts; official grades, standards and inspection; and the allotment plan belong in an elementary text intended for the purpose of this one. Some of these involve controversial questions that many vocational teachers are not prepared to discuss. Other chapters involve subject matter of a sufficiently advanced character that high school students will find it difficult to comprehend their implications and significance. The subject matter would appear more authoritative if more results of research studies had been included. If a chapter had been included on the ultimate benefits to consumers from agricultural cooperation, this book would have been more acceptable to non-agricultural groups.

The reading material of the 37 chapters comprises an average of five pages per chapter or only three-fifths of the book. Actually, nine chapters each consist of less than three pages of reading. Five chapters exceed eight pages. The reading material is simple and direct. Numerous paragraphs consist of only one sentence. Some vocational teachers will undoubtedly conclude there is an overemphasis of general and national phases and

descriptions with not enough discussion of specific and local practical problems in cooperation as related to the individual farmer. More might have been included concerning membership relations.

An average of four coordinated field activities per chapter follows the reading material. These are intended mostly as laboratory or discussion exercises for pupils to apply the lessons to local community conditions. This vitalizes a course considerably. Many of these activities are suggestive of summer projects that might be developed as an outgrowth of a course in cooperation.

The numerous illustrations consist of 44 maps, 40 cartoons, 39 graphs and charts, 28 diagrams and 28 pictures of actual market scenes. Most of these are not related closely to the text. Very few of them are mentioned in the reading material. Rather, they parallel the readings somewhat independently. It is easy to overlook many of them if one follows the text closely. There is also much danger of misinterpretation and exaggeration. However, they contribute substantially to increasing the human interest in the subject.

The book contains indications of haste or carelessness in its preparation. It is regrettable that numerous typographical and other errors exist in both the text and references. Those who are familiar with the literature should find it easy to make the necessary corrections, but others may have difficulty in identifying inaccurate references.

A. F. Hinrichs

Purdue University

A History of Taxation in Minnesota, by Gladys C. Blakey, Minneapolis: The University of Minnesota Press. 1934. Pp. 86. $.75.

During the last few years most of the governmental units of the United States have experienced increasing financial difficulties. This has led to an increased study of the problem of taxation. Professor Roy G. Blakey recently made an exhaustive study of the subject for the State of Minnesota. The book under review was originally prepared by the author for publication as a part of Professor Blakey's study but was finally published separately.

The book reviews in brief but interesting style the development of the present system of taxation in Minnesota. Such a review is significant to students to tax questions because it helps to explain the existing situation, to suggest possible remedies for present difficulties and points out some of the mistakes to be avoided. Financial difficulties are shown to be as old as the state itself so that the first tax laws passed by the state legislature were intended to meet a fiscal emergency.

The development of the general property tax and its change into a classified property tax is traced in considerable detail. In spite of the fact that property taxes are shown to have always yielded the greater portion of the revenue of state and local governments, their administration has involved difficult and continuing problems. Inability or unwillingness to assess property at anything like its true value resulted in the passage of laws providing for the classification of property for assessment purposes, different classes of property being assessed at different percentages of their true value. Since first established these percentages have been changed on several occasions, apparently always by lowering.

The use of gross earnings taxes for railroads and certain other forms of public utilities has had an interesting history in Minnesota. Taxes on the gross earnings of railroads have been imposed in lieu of all other taxes in that state since territorial days. Later the system was extended to include certain other types of corporations such as sleeping-car companies, express companies, freight lines, and telephone companies. The author's discussion indicates two principal problems which have arisen in connection with these taxes. One is the problem of securing an equitable tax rate. Apparently the tax rates have frequently been such as to impose a smaller burden of taxation on companies paying gross earnings taxes than has been imposed on other types of business. The other problem is that of obtaining fair treatment for local units of government which have an unusually large percentage of property subject to taxes on gross earnings situated in them. Gross earnings taxes have all accrued to the state and this has caused certain localities to feel that they were discriminated against.

The book also contains an interesting and instructive account of the development of other special forms of taxation. For instance, the mining industry has for some time been subjected to certain special forms of taxation as well as to heavier ad valorem taxes than other forms of property. Motor vehicles and gasoline are subject to heavy taxes not imposed on other property. Also certain other special taxes, such as those on chain stores, forest land, oleomargarine, inheritances and income, have been levied. Many of these taxes are of comparatively recent origin. Some of them were devised primarily for the purpose of securing additional revenue. Others, such as the tax on forest lands, were for the purpose of giving special treatment to certain difficult situations. Also some of the laws providing for special taxes were passed primarily for regulatory rather than fiscal reasons.

The book seems particularly timely in view of the increasing fiscal difficulties of nearly all governments. Doubtless it will prove to have the greatest value for persons dealing with the situation in Minnesota, although it should be helpful in other states where conditions are similar.

Roy A. Ballinger

Oklahoma Agricultural and Mechanical College

Pacific Northwest Wheat Problems and the Export Subsidy, by J. S. Davis. Wheat Studies of the Food Research Institute, Vol. X, No. 10, Stanford University, August, 1934. Pp. 73. $1.00.

In the above named work Dr. Joseph S. Davis has produced another notable addition to the scholarly and valuable Stanford Wheat Studies. Half of its 73 pages are devoted to a description of the Pacific Northwest region and its wheats; the historical development of wheat production and milling in the area and shipping from the area; the agricultural practices of wheat production in the region; and its present wheat marketing methods and facilities, with much attention to their historical development. Nearly one-third are used for a discussion of the origin, operations and results of the North Pacific Emergency Export Association. Most of the remaining pages are occupied by the tables which constitute the appendix.

The Pacific Northwest as a wheat producing region is defined as the area from which the surplus wheat moves toward the ports of Puget Sound and the Lower Columbia River. This region includes Washington, Oregon, northern Idaho and that part of Montana which lies west of the eastern

boundary of Idaho. The wheat is grown mostly in a limited area east of the Cascades, under conditions which vary greatly in different districts. Many varieties are grown and these fall into six distinct market types. White wheats predominate, and some three-fourths of the crop is unsuited to produce good bread flours. For that reason, although two-thirds of the crop must ordinarily be shipped out of the region, some hard wheats from Montana are regularly shipped in to strengthen the weaker local wheats for bread flour. Some of the softer wheats of the region are in high favor for biscuit and pastry flour. California takes considerable of the surplus (from 5½ to 15 million bushels annually in the last dozen years) but during the decade of the 1920's the exports of wheat and flour from the region averaged 42 million bushels, which was more than half its annual production. There is usually some small movement east by rail, of special types for special purposes. For fifty years Pacific Northwest millers have sold flour to the Southeast (particularly the Carolinas) and on the Atlantic Seaboard. During the 1932-33 and the 1933-34 seasons, especially the latter, the movement by water to the Atlantic and Gulf ports of both flour and wheat was much increased. For the 1933-34 season it exceeded the movement to California. In local trade channels the wheats suitable for good bread flours are known as *milling* wheats, all others as *export* wheats.

Wheat prices in the region move in broad harmony with major movements in the country as a whole, but there is no constant "normal" relationship between prices there and in the eastern markets or Liverpool. There is also wide variation in the spreads between the different local types of wheat. There are futures markets in Seattle and Portland, but the amount of trading done on them is small. The above conditions help to explain why hedging can be practiced to only a limited extent, and by no means satisfactorily, by mills and merchants.

The wheat interests of the Pacific Northwest were hard hit by the decrease of exports during the present depression. The author says: "Three times in the past four years federal aid in moving the regional surplus has been accorded." The latest instance of such aid was the North Pacific Emergency Export Association. Its origin and operations are well described. This association was organized to take advantage of the provisions of the agricultural adjustment act which authorizes the Secretary of Agriculture to use funds derived from processing taxes "for expansion of markets and removal of surplus agricultural products." The association made its first purchase on October 19, 1933, and its first sale on October 31. By June 30, 1934, it had bought 27.2 million bushels, sold 26.5 million bushels, and shipped out 22.6 million bushels. The net subsidy averaged 22.95 cents a bushel, a total of a little over 6 million dollars. Details of the agreement are included and operations are shown week by week and to some extent day by day.

No one interested in the wheat problems of the Pacific Northwest should fail to secure from this publication much valuable information. An enormous amount of not readily available literature is surveyed and there is presented much information not previously available in print. Nevertheless, it does contain some statements which may be misinterpreted and some minor errors. As to the importance of wheat in the region in which most of it is produced, the simple statement that, "In some parts of the region, indeed, wheat growing is the dominant farm enterprise," appears inadequate. In leading wheat producing counties the production of animal

products is relatively unimportant, and wheat generally is produced on from 85 to 95 per cent of the crop land. The statement is made that the president of the North Pacific Grain Growers' Inc., was elected president of the North Pacific Emergency Export Association. The president of the latter association has been for several years a member of the board of directors of the former association, but never its president. Several times the point is made that three times in the last four years federal aid has been accorded to the Pacific Northwest in moving the regional surplus. One of these instances is said to have been the stabilization operations of the Federal Farm Board. Later (page 385) the statement is made that "stabilization operations were conducted on a basis that supported prices in the rest of the country considerably more than in the Pacific Northwest." Under such circumstances it appears questionable whether these stabilization operations should be regarded as a case of special "regional" aid to the Pacific Northwest.

In estimating the net effects of the operations of the association, Dr. Davis is "disposed to infer" that "during its operation" this was "too raise export wheat prices in the Pacific Northwest by something like 5 to 7 cents a bushel on the average, above what they would otherwise have been and much less on 'milling wheats' than on export wheats." He regards it improbable that the North Pacific wheat growers gained 3 million dollars through the scheme but suggests the probability that the program enabled them to sell a larger amount during the crop year than they otherwise would have done. The arguments in support of the conclusion that the gains to growers did not exceed the above figure are not conclusive to the reviewer. An important basis for the conclusion was the moderate degree to which the spread between Chicago and Pacific Northwest prices narrowed under the operations. When the Association started, however, prices were so low that farmers generally, with the approval of the banks, refused to sell in the hope that something might save them. In the opinion of the reviewer, the great increase in exports made possible by the subsidy saved growers over 3 million dollars. While there might have been some exports without the subsidy they would have been limited except at much lower prices. Even with the subsidy, the exports were such that a large carryover still remained. Without the program more wheat would have been shipped east, but only at lower prices. The reviewer is disposed to think that the estimate of the net advantages of the association of 12 to 15 cents a bushel, which Dr. Davis reports as held by all members of the trade whose opinions he asked, is more nearly in agreement with the facts than his independent estimate.

Unquestionably Dr. Davis is correct in a final conclusion, as follows: "Unless and until the nations of the world return to a saner freedom of international trade, Pacific Northwest wheat interests will be peculiarly vulnerable."

E. F. Dummeier

The State College of Washington

Farm Accountancy. Statistics for 1930-31. Rome: International Institute of Agriculture, 1934. Pp. xcv, 642. 50 liras. [In French, with table headings well keyed and translated.]

This fourth volume of the Farm Accountancy series is much like the

earlier volumes reviewed in this JOURNAL. Its form and scope are those envisioned in the basic plans. The number and variety of farm records included in the statistics has been increased somewhat, and improvements have been made in the general information furnished and in the notations. Technical problems have not all been finally resolved, but the close student can get a good idea of what they are. For this purpose a reader will find the introductory and supplementary sections of the earlier volumes useful.

The bookkeeping results of 13,119 farm businesses for the year 1930-31 from 21 countries have been presented with comparable figures for the three prior years so far as these were available. These have been sorted by system of farming and scale of operation, and where numbers and distributions of records warranted doing so they have been shown by size-of-farm groups, and by sections of the country. The accounts have been cast into a statement of results uniform with respect to definitions and complete in coverage as far as possible. Thus there have been given for a great many groups of farm businesses in the principal countries of Europe intimate details of the use of land, distribution of capital, gross receipts, expenses of production, and final results. These details are at present the meat of the series. There is a vivid reality about the data that make them attractive material to work with. Classes would not find it irksome to study the accounting method and the statistical procedure as exercises.

A general survey of the data and some interpretive comment on the results obtained during the four years of collection of the data are now available in English in the form of an article in the Institute's Monthly Bulletin of Agricultural Economics and Sociology for September, 1934 by Mr. J. Deslarzes, of the Institute Staff. The article may prove useful to some readers as an introduction to the project, provided they then examine the statistics.

S. W. Mendum

Bureau of Agricultural Economics

NEWS ITEMS

Editor's Note: This section of the Journal is a cooperative project which depends for its coverage upon the response shown by members in sending in items suitable for publication. Members are urged to cooperate with the Associate Editor in charge of this section, S. W. Mendum, 214 Holly Ave., Takoma Park, D.C., by sending him items.

The National Association of Marketing Officials held its annual convention in New York City, November 15-17, at the invitation of the New York State Department of Markets. Food distribution and its relation to marketing was the general theme. Mayor LaGuardia opened the convention with an address showing his great personal interest in and close acquaintance with marketing matters. There was a consumers' forum, attended by a number of leaders of federations of women's clubs, which gave attention to the subject of consumer information. A harvest festival and banquet was enjoyed by nearly 500 persons. Officers elected for the coming year are George A. Stuart, of Pennsylvania, president; H. M. Newell, of Illinois, vice-president; Sidney Edwards, of Connecticut, secretary-treasurer. The next annual meeting will be held at Chicago.

Mr. B. F. Alvord, Associate Professor and Associate Agricultural Economist, has been appointed Acting Head of the Agricultural Economics Department at Alabama Polytechnic Institute, in place of Professor James D. Pope, resigned.

Mr. G. H. Aull, Assistant Director of the South Carolina Agricultural Experiment Station, Clemson College, has been appointed Head of the Agricultural Economics Department of that institution. He continues to carry his duties as Assistant Director.

Mr. B. W. Cockerill has been promoted to the position of Agricultural Economist at the New Mexico Agricultural Experiment Station, filling the vacancy made by the resignation of Mr. A. L. Walker.

Dr. R. B. Corbett, Head of the Department of Agricultural Economics of the Rhode Island State College, was transferred to the Economics Division of the U. S. Extension Service at Washington, D.C., effective February 15 as Senior Agricultural Extension Economist.

Mr. E. Fred Koller has been appointed Instructor in Agricultural Economics, University of Minnesota, to fill the vacancy caused by the resignation of Lloyd L. Ullyot who is now on the staff of the St. Paul Bank for Cooperatives.

Mr. H. H. Laidlaw, Jr., a graduate of Louisiana State University, has been appointed research assistant in the Department of Agricultural Economics in that institution. Mr. Laidlaw will make a study of the important truck crops now grown in Louisiana.

Dr. Charles P. Loomis has been appointed to the staff of the Division of Farm Population and Rural Life, Bureau of Agricultural Economics. Prior to his appointment Dr. Loomis had spent two years studying rural settlement problems in Germany.

Dr. Valentine S. Malitsky who completed his work for the Ph.D. degree at Minnesota last June, is returning to Russia. He expects to spend some time at the International Institute of Agriculture and in travel in France and Germany before going to Moscow.

Dr. T. B. Manny has been designated acting in charge of the Division of Farm Population and Rural Life, Bureau of Agricultural Economics, since the retirement of Dr. C. J. Galpin.

Mr. J. H. McLeod, formerly Animal Husbandry Extension Specialist at the University of Tennessee, has been appointed Farm Management Specialist at that institution.

Mr. Louis G. Michael, agricultural attaché at Belgrade, Yugoslavia, arrived in the United States with his family in late December for a period of home leave.

Mr. Wayne C. Nason, formerly assistant agricultural economist, Division of Farm Population and Rural Life, Bureau of Agricultural Economics, passed away suddenly at Washington, D.C. on October 24, 1934. During his 17 years of service with the Department of Agriculture, Mr. Nason wrote a number of bulletins dealing with rural community buildings, libraries, hospitals, and with various aspects of rural social planning and rural industries as factors in farm living conditions. Before coming to the Department of Agriculture, Mr. Nason was supervisor of schools in the Philippine Islands for 14 years.

Mr. N. I. Neilsen, agricultural attaché at Paris, France, is back in this country, after an absence of five years. He expects to return to Paris in the early Spring.

Dr. C. V. Noble has been designated acting head of the Department of Agricultural Economics, University of Florida.

Professor Millard Peck of the Department of Agricultural Economics, Iowa State College, Ames, Iowa has been granted a leave of absence to June 30, 1935 to serve as Senior Agricultural Economist, Land Policy Section, Agricultural Adjustment Administration.

Dr. Paul E. Quintus who received his Ph.D. from the University of Minnesota at the end of the fall quarter joined the staff of Iowa State College.

Dr. J. Wayne Reitz, a graduate of the Colorado Agricultural College, has been named Assistant Professor of Agricultural Economics at the University of Florida, effective September 1, 1934.

Dr. W. Bruce Silcox, Extension Economist, University of Minnesota, has been given leave of absence to serve the Farm Credit Administration and the Federal Extension Service in extension work in the western states.

Mr. Lloyd V. Steere, agricultural attaché at Berlin, Germany, returned to the United States in December for a period of home leave.

Dr. O. C. Stine, in charge of the Division of Statistical and Historical Research, Bureau of Agricultural Economics, stayed at Rome for two

weeks after the close of the General Assembly of the International Institute of Agriculture to help with the development of plans for the collection of information and the development of research called for in the new program, presented by Dr. H. C. Taylor, permanent American delegate to the Institute, and accepted by the Assembly. Dr. Stine returned to Washington November 27.

Mr. Harry Trelogan has returned to his position at the University of Minnesota, after several months in Washington working with The Brookings Institution.

Mr. A. L. Walker, formerly Agricultural Economist of the Agricultural Experiment Station of New Mexico, has accepted a position as Extension Agricultural Economist at Rhode Island State College.

TWENTY-FIFTH ANNUAL MEETING OF THE AMERICAN FARM ECONOMIC ASSOCIATION

The twenty-fifth annual meeting of the American Farm Economic Association was held in Chicago, Illinois, Palmer House, noon December 26 to noon December 29, 1934.

At the opening session on December 26, the President appointed Warren C. Waite and Leland Spencer to act as tellers to receive from the Secretary-Treasurer the sealed ballots for the election of officers for the coming year, with instructions that the results of the election be announced at the annual business meeting.

Annual Business Meeting

The annual business meeting of the Association convened at 9:00 A.M., Friday, December 28.

Report of the Secretary-Treasurer

The Association increased its membership during the year. This is a happy contrast to the declines of the two preceding years. From a financial standpoint, the Association enjoyed the second best year in its history. From this it seems clear that the depression has turned the corner; recovery is on its way.

The following financial statement is for the year ending November 30, 1934.

Statement of the Receipts and Expenses for the Year
December 1, 1933 to November 30, 1934

RECEIPTS

Receipts from dues		$4,560.03	
Back numbers sold		228.13	
Interest		370.00	
Advertising		96.25	
			$ 5,254.41

EXPENSES

JOURNAL OF FARM ECONOMICS			
Vol. XVI, 4 issues	$2,588.00		
Vol. XVI, 4 reprints	274.90	$2,862.90	
Postage			
Office of the President	$ 24.00		
Office of the Editor	25.91		
Office of the Secretary-Treasurer	38.99		
Mailing 1934 programs	32.88	121.78	
1933 annual meeting			
Travel Editor	$ 84.38		
Travel, Secretary-Treasurer	102.56		
Travel, Secretary to the Secretary-Treasurer	80.40		
Room, President	10.50	277.84	
Auditor, travel		16.25	
Arrangements for 1934 meeting, travel (Secretary)		12.65	

Back numbers purchased	$ 2.00	
Membership literature	14.90	
Office Supplies	19.50	
1933 programs (printing)	45.00	
Telephone and telegraph	12.59	
Exchange, checks returned and government tax	35.99	
Miscellaneous	13.75	
		$ 3,435.15
Excess of receipts above expenses		$ 1,819.26
Balance, November 30, 1933		8,767.82
Total assets, November 30, 1934		$10,587.08

Assets

Checking account as per bank statement	$2,268.83	
Less check not returned	2.00	
Checking account, net		$ 2,266.83
Bonds		
U. S. Treasury 4¼/47-52 (Market value November 30, 1934—$7,840.00) cost		7,323.31
Federal Land Bank 4¼/38-58 (Market value November 30, 1934—$1,001.25) cost		996.94
		$10,587.08

Receipts as compared with the previous year, increased by $628.37, while expenditures decreased by $134.55. The excess of receipts over expenditures was $1,819.26 as compared with $1,056.34 for 1933. (It should be explained, however, that in 1933 the date of closing the books was advanced from December 20, to November 30, which curtailed the fiscal period for that year by 20 days when receipts are the heaviest.)

The year 1930 marked the high point in the Association's history from the standpoint of excess of receipts over expenditures. For that year they were $1,928.54. This year is a close second.

It is strongly urged that the Association continue the policy of accumulating a reserve until the amount becomes sufficient to produce an income from interest payments that will defray the expenses of issuing the proceedings of the annual meetings in a separate volume and in addition contribute, in part at least, toward the payment of clerical assistance required in the offices of the Editor and the Secretary-Treasurer.

The total membership of the Association for the past three years, classified by groups is given below:

Class	Dec. 20 1932	Dec. 1 1933	Dec. 1 1934	1934 Compared with 1933 Dec. —; Inc. +
Individuals	675	622	613	— 9
Corporations in the United States	37	29	63	+34
Libraries in the United States	126	128	134	+ 6
Foreign Libraries and Corporations	133	127	131	+ 4
Total	971	906	941	+35

The problem of maintaining membership numbers is always a pressing one. It is especially difficult in times such as these. From the tabulation above it will be noted that the membership difficulties are in the individual class. This group did not hold its own. During the year 70 members exclusive of reinstatements, were dropped because of delinquency. In addition, there were 29 withdrawals—total of 99. This decrease was more than offset by the 134 new members from all classes. Such considerable turnovers, however, place an undue financial burden on the Association. Each delinquent member receives two copies of the JOURNAL before he is taken from the membership list. Furthermore, his delinquency involves two notices calling for payment of membership dues and two personal letters. Here postage is an item to say nothing of donating two numbers of the JOURNAL and the extra office work.

The table below gives the membership in the leading states and the District of Columbia for the past three years.

	Dec. 20 1932	Dec. 1 1933	Dec. 1 1934
District of Columbia	106	102	122
New York	82	70	65
Illinois	53	49	47
California	39	40	38
Wisconsin	41	38	32
Minnesota	20	32	29
Iowa	23	22	20
Pennsylvania	20	20	19
Indiana	23	17	17
Ohio	24	17	17
Maryland			17
Montana			17

Most of the states in the list have failed to maintain their membership numbers during 1934. This should not be. Such declines can only be overcome by the active cooperation of one or two members in each office, bureau, department or institution having agricultural economic workers on its staff. Such cooperation is imperative if the Association is to maintain its present influence as an active agent in promoting and developing the field of agricultural economics.

Respectfully submitted,
(Signed) *Asher Hobson, Secretary-Treasurer*

Report accepted as read.

Report of the Auditor

I have inspected the financial accounts of the Secretary-Treasurer for the year ending November 30, 1934. I have checked the supporting vouchers against all entries and find the latter to be accurately made. I have further confirmed the statement of assets by an examination of the bank statements and by checking the bonds owned by the Association. I certify that the books have been carefully and accurately kept and that the financial report of the Secretary-Treasurer reflects accurately the financial transactions of the Association as shown by said books.

(Signed) *George A. Pond, Auditor*

Report accepted as read.

Report of the Editor of the Journal of Farm Economics *for the Calendar Year 1934*

Volume XVI of the Journal of Farm Economics totals 760 pages of material, being second in number of pages only to volume XV. The amount of material originating at the annual meeting in 1933 was not as great as that in the year previous, making it possible to include a larger number of contributed articles in the issues of the Journal during the past year. The list includes 49 papers and discussions from the annual meetings; 46 contributed articles and notes and 37 book reviews.

The Editor desires to remind the membership of the cooperative nature of the undertaking. He admits readily that his editorial services are far from having attained the acme of perfection and that editorial improvements are possible. Suggestions for editorial improvement will always be welcome. However, the duty of providing material falls upon the members, not upon the Editor. As a matter of fact a desirable custom represses any urge he might have to fill the Journal pages with his own product. The better the material submitted the better a Journal you will have. Even though it means burning more midnight oil, nothing pleases an editor more than to have his mail include a large number of worth-while articles from which selection can be made.

The Journal of Farm Economics represents the logical medium for the agricultural economists to reach their fellow workers with the results of their research studies. In times such as these there are so many vital problems awaiting serious and painstaking treatment, that there ought to be a good many more articles prepared than actually is the case. The plea of many is that they are too busy. Too busy for what? Too busy to think through problems of the day? Evidences are not lacking that this only too often is the case, but it certainly is a situation which we should strive to overcome. The older members of the Association can assist materially in guiding and directing their younger colleagues in the preparation of material. In addition to so doing, however, our senior members should contribute articles of their own. These editorial suggestions apply to both leading articles and materials for the Note section of the Journal.

Authors need to bear in mind that once material is in final print it is too late to change the idea or the dress in which it has appeared. They should, therefore, prepare their materials with the greatest of care before it is submitted. Accuracy and style of expression are important. Keep your readers in mind. Write so they get your ideas without having to untangle language and expressions that are unnecessarily involved. After all, it is the idea that is the important thing. The style should be as direct and simple as possible. Readers soon get out of patience with articles that have been made unnecessarily involved because the author has deluded himself into thinking that this displays erudition.

The Editor also would like to make a plea for prompt and careful reading of proofs by the authors. Every now and then he receives corrected proof at about the same time as the Journal itself appears. To avoid this, read proof immediately, mark corrections clearly in margins, and avoid all unnecessary alterations.

This occasion offers the Editor an opportunity to express his appreciation for the cooperation which he has received from the authors during the year and for the forgiving spirit in which, with few exceptions, they

have accepted his mutilations or return of their manuscripts. His concluding word is, the JOURNAL is yours. Let us make it the best and then let us strive to make "the best better."

(Signed) *O. B. Jesness, Editor*

Report accepted as read.

Report of the Committee on Organization

The officers of the Association are elected in the following manner:

"That not later than December 1 of each year, the Secretary-Treasurer shall mail a ballot to each member of the association who has paid dues for the current year, not including corporations, libraries or other institutions. Said ballot shall provide for a vote for each elective officer, the sealed ballots to be opened by tellers at the annual business meeting. The person receiving a majority of votes for each office shall be declared elected. No member shall be eligible to succeed himself as president of the Association within a period of ten years after holding office.

"If there is any office for which no one has received a majority of the votes cast, the positions shall be filled by ballot at the annual business meeting from the two persons receiving the largest number of votes for the office."

The Committee on Organization recommends that the additonal procedure specified below be followed in selecting the officers of the Association.:

The President and the two preceding past Presidents shall constitute a nominating committee. The President shall act as chairman of the committe.

Two nominations shall be made for each office except for Secretary-Treasurer, for which one nomination shall be presented.

For each office the ballot shall include one blank line.

A brief biographical sketch shall be included for each nominee.

The ballot shall be enclosed in an envelope which shall be marked on the outside as follows:

"Ballot for Officers of the American Farm Economic Association."

"This ballot shall reach the Secretary-Treasurer not later than the first day of the annual meeting."

"Name ...."

Your name is required for checking with the list of voters. Ballots will be opened by the tellers in such a manner as to preserve the secrecy of the vote.

The recommendations submitted by G. F. Warren, chairman of the committee, were adopted.

Report of Farm Credit Committee

The chief work of this Committee has been accomplished through Dr. H. C. M. Case, a member who represented the Committee on the National Joint Committee on Rural Credits. Several members of the Committee have served as chairmen of sub-committees of the National Joint Committee and have supervised the preparation of numerous reports.

Since the work of the National Joint Committee on Rural Credits is not yet completed, it is recommended that this Committee be continued for another year.

(Signed) *E. C. Young*

Report accepted and recommendation adopted.

Report of the Committee on the Agricultural Census

In the spring of 1933 the Social Science Research Council's Committee on Social and Economic Research in Agriculture set up a sub-committee for study of the quality and adequacy of the data collected by the Census of Agriculture. Professor I. G. Davis served as chairman of this sub-committee until he became chairman of the main committee. At that time, J. D. Black, retiring chairman of the main committee, was made chairman of the sub-committee and has carried on the work begun under the guidance of Professor Davis.

At the Philadelphia meeting in December 1933, the Executive Committee of the American Farm Economic Association joined with the Social Science Research Council group in establishing a joint committee on the census of agriculture. This committee consisted of

J. D. Black, chairman, Harvard
W. E. Grimes, Kansas
F. F. Hill, Cornell
E. A. Starch, Montana
H. R. Tolley, California
R. J. Thompson, Louisiana
F. F. Weaver, Pennsylvania
G. S. Wehrwein, Wisconsin

With the decision of the Committee on Government Statistics and Information Service in September 1933 to include in its program statistics relating to agriculture, an additional channel for work with the census was opened up. The Joint Committee, through its chairman, cooperated with the Committee on Government Statistics and at the invitation of the latter committee, Dr. Black submitted to it a report analyzing in considerable detail the data secured in the last three agricultural censuses. The work of the Joint Committee and of its predecessor, also took form in the two papers by Black and Tolley published in the July issue of the Journal of Farm Economics and in the article by I. G. Davis in the September issue of the Journal of the American Statistical Association.

In January 1934 the Director of the Census asked, through the Central Statistical Board, for a review and analysis of the work in the Censuses of Agriculture, Manufactures, and Population. During 1934, considerable work has been done on all of these phases by the Committee on Government Statistics and Information Services; the reports being submitted to the Central Statistical Board. These reports were submitted in response to direct requests from administrative officials and are semi-confidential in nature, but will probably be released by the Committee on Government Statistics or by the Central Statistical Board.

Many important recommendations could not come into consideration for the 1935 Census of Agriculture since plans for this were already under way. There are, however, many features of the 1940 census situation with which it is not too early for a committee, such as that to which this report pertains, to be concerning itself. There is great need for a suitable channel whereby the principal users of census data can bring their influence to bear in bettering the Census of 1940. The United States Department of Agriculture is well represented in the planning of the agricultural censuses though its hand may need strengthening through the aid of agencies out-

side of that Department. For the non-federal users of agricultural census data such an agency as this Joint Committee is about the only means of orderly expression and influence. It seems desirable, therefore, that such a committee of the American Farm Economic Association be continued, preferably in cooperation with the Social Science Research Council's Committee on Agriculture, as in the past.

Submitted by

M. R. Benedict

Report accepted as read, and the recommendation that the committee be continued was adopted.

Life Membership

The constitution of the Association was amended raising the rate of life membership from seventy-five to one hundred dollars. Section 2, Article V, as amended reads:

"Life membership in the Association may be secured by the payment of one hundred dollars ($100.00). Funds thus obtained shall be invested and only the income spent."

Report of the Election Tellers

One hundred and forty-nine votes were cast for the position of president. No candidate had a majority of votes. Mr. W. E. Grimes and Mr. J. F. Booth were the two receiving the highest number of votes. By a ballot of the members present at the annual business meeting, Mr. Grimes was elected.

No candidates received a majority of votes for the positions of vice-presidents. By ballot, at the meeting, Mr. Leland Spencer and Mr. W. C. Waite were elected.

Mr. Asher Hobson received a majority of the votes cast for Secretary-Treasurer.

Mr. Fred E. Clark, the Association's representative on the Local Committee on Arrangements, was accorded a rising vote of thanks in appreciation of the excellent facilities placed at the disposal of the Association.

The meeting adjourned at 10:00 A.M.

Executive Committee Action

The Executive Committee held two sessions. The following business was transacted.

1. The publication dates of the JOURNAL OF FARM ECONOMICS were changed from January, April, July and October to February, May, August and November. This change will permit the issuance of the February number on time, which was not possible with the January issue. It will also permit the inclusion of the program for the annual meetings in the November number. The October issue appeared too early to permit this.
2. A handbook containing a list of members of the Association is not to be published until requested by the Executive Committee.
3. The Committee expressed the opinion that the JOURNAL should not be distributed on an exchange basis.
4. The Secretary-Treasurer was authorized to incur travel expenditures in connection with arrangements for the annual meetings.
5. Professor O. B. Jesness was appointed Editor of the JOURNAL OF FARM ECONOMICS for the ensuing year.